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No.

Supreme Court, U.S.
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CLERK

IN THE

Supreme Court of the United States

October Term, 1986

SHOE WORLD, INC. d/b/a GUSSINI,

Petitioner,

against

EL GRECO LEATHER PRODUCTS COMPANY, INC. d/b/a CANDIE'S INTERNATIONAL,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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Questions Presented For Review

1. Can shoes that are (i) manufactured at the direction, under the supervision and pursuant to the quality controls of a plaintiff-trademark holder, (ii) labelled pursuant to plaintiff's authorization with plaintiff's federally registered mark, and (iii) rejected by the trademark owner solely for alleged late delivery, be found not to be genuine?

2. Did the Court of Appeals for the Second Circuit apply the proper standard of review in reversing, as a matter of law, the trial court's finding that the goods in issue were genuine or should that finding be subject to reversal only upon a showing that it was "clearly erroneous"?

3. Does the grant of an injunction against the sale of shoes that are

manufactured at the direction and under the supervision of a plaintiff-trademark holder and labelled pursuant to plaintiff's authorization with plaintiff's federally registered mark constitute an unwarranted extension of the remedies provided under the trademark statute?

4. Does the conflict (i) between the Court of Appeals for the Ninth and Second Circuits on the issue of genuineness and (ii) within the Court of Appeals for the Second Circuit on what constitutes a copy or simulation under the Trademark Act, warrant issuance of a writ of certiorari?

Statement Pursuant to Rule 21.1

The caption of the case in this Court contains the names of all parties.

Statement to Rule 28.1

There are no parent companies, subsidiaries and affiliates of Shoe World, Inc. d/b/a Gussini.

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No.

IN THE

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October Term, 1986

SHOE WORLD, INC. d/b/a GUSSINI,

Petitioner,

v.

EL GRECO LEATHER PRODUCTS CO., INC., d/b/a CANDIE'S INTERNATIONAL

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioner, Shoe World, Inc. d/b/a Gussini (hereinafter "Shoe World") prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Second Circuit.

Opinions Below

The opinion of the Court of Appeals for the Second Circuit denying a petition for rehearing en banc appears in the Appendix to this petition at A1. The opinion of the Court of Appeals is reported at 806 F.2d 392 (2d Cir. 1986) and appears in the Appendix at A3. The opinions of the United States District Court for the Eastern District of New York following trial are reported at 599 F. Supp. 1380 (E.D.N.Y. 1984) and 623 F. Supp. 1038 (E.D.N.Y. 1985) and appear in the Appendix at A71 and A34, respectively.

Jurisdiction

The opinion of the Court of Appeals for the Second Circuit, denying the timely Petition for Rehearing, en banc, was issued January 26, 1987. The opinion of the Court of Appeals reversing the

district court decision on infringement was issued on December 3, 1986. This Court has jurisdiction under 28 U.S.C. § 1254(a).

Constitutional Provisions, Statutes And Regulations Involved

15 U.S.C. 1114(1) (Section 32 of the Trademark Act of 1946):

> Any person who shall, without the consent of the registrant-
>
> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or
>
> (b) reproduce, counterfeit, copy or colorably imitate a registered mark and apply such reproduction, counterfeit, copy or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution or

> advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive;
>
> shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) hereof, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

Fed. R. Civ. P. 52(a):

> (a) Effect. In all actions tried upon the facts without a jury or with an advisory jury, the court shall find the facts specially and state separately its conclusions of law thereon, and judgment shall be entered pursuant to Rule 58; and in granting or refusing interlocutory injunctions the court shall similarly set forth the findings of fact and conclusions of law which constitute the grounds of its action. Requests for findings are not necessary for purposes of review. Findings of fact, whether based on oral or documentary evidence, shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial

> court to judge of the credibility of the witnesses. The findings of a master, to the extent that the court adopts them, shall be considered as the findings of the court. It will be sufficient if the findings of fact and conclusions of law are stated orally and recorded in open court following the close of the evidence or appear in an opinion or memorandum of decision filed by the court. Findings of fact and conclusions of law are unnecessary on decisions of motions under Rules 12 or 56 or any other motion except as provided in Rule 41(b).

Statement of The Case

This is a genuine goods case involving shoes bearing the trademark CANDIE'S, registered in the United States Patent and Trademark Office, covering shoes, Reg. No. 1,157,373. The registration issued in the name of El Greco Leather Products Company, Inc. d/b/a Candie's International (hereinafter "El Greco").

In 1983, El Greco, through its Brazilian agent, Sapatus Assessoria e

Lancamentos Ltda. ("Sapatus"), ordered 25,200 pairs of CANDIE'S shoes from a company called Calcados Solemio Ltda. ("Solemio"), to be manufactured to El Greco's specifications and to be delivered in seven lots (lots A through G) of about 3,600 pairs per lot. Solemio was specifically authorized to affix the CANDIE'S mark to *all* of these shoes.

El Greco refused to accept the last two lots due to late delivery. As noted by the majority of the Court of Appeals panel, "[t]he district court found that [the shoes] had in fact been completed ... at the time El Greco cancelled its order, and that El Greco did not specifically instruct Solemio on how to dispose of the shoes." A7. The shoes at issue were ultimately sold to an agent of Shoe World and imported by Shoe World.

Thereafter, El Greco brought suit, alleging violation of the Lanham Act, 15 U.S.C. §§ 1114, 1125(a), unfair competition, violation of New York Gen. Bus. L §§ 368-b, 368-d and 279-n and, violation of the Genuine Goods Exclusion Act, 19 U.S.C. § 1526.

In an opinion and order dated December 20, 1984, the district court denied all injunctive relief sought by El Greco. In a later decision it denied Shoe World's application for sanctions under Rule 11. The district court found the imported shoes to be genuine in view of the following findings of fact:

(a) The mark CANDIE'S was affixed by authority of the trademark owner;

(b) the goods were inspected by the trademark owner's agent;

(c) the only basis for rejection of the goods was late delivery;

(d) the goods were of the same quality as those for which delivery was accepted; and

(e) there were no instructions regarding disposition of lots for which delivery was not accepted.

In a decision issued and filed on December 3, 1986, the Court of Appeals for the Second Circuit reversed the district court's denial of injunctive relief, concluding that as a matter of law the shoes in issue were *not* genuine and that, therefore, Shoe World had violated Section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1). Judge Altimari dissented. The Court of Appeals did not rule upon El Greco's other claims, nor did it disturb any findings of fact made by the district court.

Reasons For Granting The Petition

Shoes Manufactured at the Direction and under the Supervision of a Plaintiff-Trademark Holder and Labelled Pursuant to Plaintiff's Authorization with Plaintiff's Federally Registered Mark are Genuine Goods and Their Sale Cannot Constitute Trademark Infringement

In determining whether a product is or is not genuine, it is necessary to weigh a number of factual considerations. The district court did so below. As Judge Altimari noted in the dissent in the Court of Appeals decision:

> Determinations of genuineness ... frequently necessitate an assessment of... the trademark owner's intent when farming out its manufacturing and labelling duties. In the instant case, the district court sifted through evidence regarding the following questions: authorization to manufacture and label, the extent that the goods were completed, the quality of the product, and the nature of the instructions given as to the disposal of cancelled goods.

A25.

The district court, in determining that the CANDIE s shoes were genuine, found that Solemio was authorized to manufacture and label CANDIE'S shoes, that the goods at issue were completed before the date of cancellation, that the goods were of a quality consistent with goods that had been accepted by El Greco and that El Greco had provided Solemio with no instructions regarding disposal of the goods. A86-89, 93-97.

The appellate majority, however, held that as a matter of law the goods at issue were not genuine. A12. Mind you, it did not question or disturb in any way the validity of the district court's findings pursuant to Fed. R. Civ. P. Rule 52(a). Rather, it decided, *as a matter of law*, that the *sine qua non* for determining genuineness was the issuance by the trademark owner of a so-called

inspection certificate. The majority stated:

> The certificates of inspection ... were an integral part of appellant's effort at quality control ... . While we accept as not clearly erroneous the conclusion of the district court that poor quality was not the reason lots F and G were cancelled, the inspection step was nevertheless an integral part of El Greco's procedure for determining whether to accept shoes and allow them to be sold under its trademark.

A14-15.

The contradiction inherent in this statement renders it meaningless! If the certificate of inspection were refused due to poor quality, then El Greco's right to control quality would have been exercised and denial of the certificate justified. However, the majority accepted *as fact* that poor quality was *not* the reason for rejection. Indeed, the district court found that the goods were rejected for late delivery and that

their quality was every bit as good as the other lots! The Court of Appeals did not find this to be clearly erroneous.

In short, there is nothing in the record to suggest that El Greco was not afforded what the Court of Appeals stated it was entitled to, i.e., "an opportunity to inspect the goods and certify their quality prior to disposal." A17. Indeed, since the goods had already been rejected for late delivery, what was the possibility that El Greco would *ever* issue a certificate of inspection? That question was mooted by the late delivery rejection. Moreover, having failed to prove at trial that the shoes in issue were defective, El Greco could have been ordered as a matter of contractual obligation to issue a certificate of inspection for the lots in question. The Court of Appeals majority mistakenly

equated absence of a certificate of inspection with denial of the right to control quality. There is no record reference to support this erroneous assumption. In fact, the district court found that El Greco's agent inspected the other lots routinely and on-site. That finding was not disturbed.

The majority's misapprehension of the facts in this regard is further illustrated in the following expression of concern over the "rights" of trademark owners:

> The mere act of ordering a product to be labeled with a trademark does not deprive its holder of the right to control the product and the trademark.

A16.

While that is an attractive sounding sentiment, it is not an accurate statement of the facts, as we have noted, and it fails to accurately describe the

law. Indeed, control of a licensee's operations to guarantee the quality of the product sold under the licensed mark is not a right granted to the trademark holder, but rather an *obligation* imposed by law. *General Motors Corp. v. Gibson Chemical & Oil Corp., 786 F.2d 105, 110 (2d Cir. 1986).* Nevertheless, El Greco did control quality and was never denied that opportunity based on the record below.

The dissent was prompted by the majority's classification of the genuineness question as one of law, rather than fact and by its "underinclusive" definition of genuineness. Needless to say, Petitioner concurs with these criticisms. Indeed, controlling precedent in the Ninth Circuit dictates the conclusion that the goods at issue are genuine.

In *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corporation, 707 F.2d 1054 (9th Cir. 1983)*, Monte Carlo contracted with Daewoo to purchase 2,400 shirts manufactured with its label and to its specifications. The shirts were rejected because the documents necessary to clear the shipment arrived too late for the selling season. The goods were purchased and sold by someone other than Monte Carlo to discount retailers. Monte Carlo sued.

The Court of Appeals for the Ninth Circuit, in affirming a denial of relief, found that public confusion, the injury that is the touchstone for any viable cause of action for trademark infringement, could not be established because:

> [t]he goods sold by Daewoo were not imitations of Monte Carlo shirts; they were the genuine product, planned and sponsored by Monte Carlo and produced for it on contract for future sale. The shirts were not altered or

> changed from the date of their sale. Their source was Monte Carlo; the absence of Monte Carlo's authorization [of the sales] does not alter this.

707 F.2d at 1058 (emphasis added). It is evident, applying the Monte Carlo standard, that the goods at issue here are genuine.

Significantly, the Court of Appeals for the Second Circuit itself, in *DEP Corporation v. Interstate Cigar Company, Inc.*, *622 F.2d 621, 622 (2d Cir. 1980)*, suggested, in dictum, that similar goods to those at issue here should be found genuine and that their sale could not constitute trademark infringement.

DEP was the exclusive distributor in the United States of PEARS soap. Interstate began selling PEARS soap in the United States. It purchased that soap in Europe. The district court denied DEP's application for an injunction under 15

U.S.C. § 1114(1) because DEP was not the owner of the PEARS mark. In dictum appearing as a footnote, the Court of Appeals for the Second Circuit ruled:

> It does appear anomalous in any event that a trademark infringement action would lie here where the soap sold by Interstate is in fact genuine and not spurious. It is conceded that there is *no difference* between the product sold by DEP and that sold by Interstate. There is no reproduction, counterfeit, copy, or colorable imitation of the PEARS mark and hence no public confusion as to the source of the goods.

622 F.2d at 622 n.1 (emphasis added).

Where, as here, a trademark owner fails to protect itself contractually against foreseeable eventualities, such as those that occurred here, is it appropriate to penalize an unwitting player such as Shoe World? Is it appropriate for El Greco to seek enforcement of its contract rights with Solemio under the

guise of the trademark statute, the primary concern of which is to protect consumers from being confused or misled as to the source or quality of the products they buy, i.e., from reproductions, colorable imitations, etc.? Is it appropriate for El Greco, seeking to maximize profit by using cheap, foreign labor, to use the trademark laws to discourage the sale of goods whose genesis lies with El Greco itself? Petitioner submits that it is not.

Remedies exist for El Greco in contract law. Contract safeguards *could* have been put in place, but were not.

The Court of Appeals, By Failing to Employ the Clearly Erroneous Standard, Incorrectly Reversed the District Court Finding That The Goods at Issue Are Genuine

The Court of Appeals, although citing no precedent, decided that the issue of

whether or not goods are genuine is to be determined as a matter of law, not as a finding of fact. Moreover, the court concluded, as a matter of law, that the goods at issue are not genuine because a certificate of inspection was not issued. Presumably, this means that genuineness can be determined on a summary judgment application whenever a plaintiff-trademark holder shows that a purchaser imports goods without permission and notwithstanding the fact that the products are, as here, of identical quality and appearance and were, as here, manufactured and labelled pursuant to the trademark holder's authorization. This is contrary to Rule 52(a) Fed. R. Civ. P., to precedent, and to common sense.

As noted in the dissent, the law of trademarks abounds with issues of fact which are reviewable under the clearly

erroneous standard, citing *Plus Products v. Plus Discount Foods, Inc., 722 F.2d 999 (2d Cir. 1983)*. A24. For example, in connection with determination of "likelihood of confusion," the test for determining whether or not there is or is not an infringement, the Court stated in *American International Group, Inc. v. London American International, 664 F.2d 348, 351 (2d Cir. 1981)*:

> Whether or not there is a likelihood of confusion is a question of fact as to the probable actions or reactions of prospective purchasers of the goods to services of the process.

Likewise, determination of whether or not a mark has acquired secondary meaning is a fact question, *Abercrombie & Fitch Co., Inc. v. Hunting World, Inc., 327 F. Supp. 657 (S.D.N.Y. 1971), rev'd on other grounds, 461 F.2d 1040 (2d Cir. 1972)* as is a determination of the issue

of trademark abandonment. *Dawn Donut Company v. Hart's Food Stores, Inc.*, *267 F.2d 358 (2d Cir. 1959)*; *R.C.W. Supervisor, Inc. v. Cuban Tobacco Company, Inc.*, *220 F. Supp. 453, 461 (S.D.N.Y. 1963)*. The same is true with the issue of genuineness.

Nevertheless, the majority concluded that genuineness is to be determined as a matter of law. Interestingly, while the majority took this position, it made no finding that the district court was clearly erroneous in its findings of fact. Nor did the Court of Appeals lend different weight to different fact findings in order to reach its legal conclusion. It appears, instead, to have discounted the facts relied on by the district court, instead focusing all of its attention on one fact, lack of a certificate of inspection. It then proceeded

from that single factual premise to the mistaken conclusion that El Greco had been prevented from inspecting the goods. This latter "appellate finding" constitutes impermissible interference with the fact finding effort of the district court, an effort that was never found to be "clearly erroneous." As such it constitutes a clear violation of Rule 52(a) Fed. R. Civ. P.

Grant of an Injunction Against the Sale of Shoes Manufactured At the Direction And Under the Supervision of a Plaintiff-Trademark Holder and Labelled Pursuant to Plaintiff's Authorization With Plaintiff's Federally Registered Mark Constitutes An Unwarranted Extension of the Remedies Provided By the Trademark Statute

Because the Court of Appeals majority concluded that the goods at issue were not genuine, they held that their sale constituted a violation of 15 U.S.C.

1114(1), i.e., a "reproduction, counterfeit, copy or colorable imitation" of the registered mark CANDIE's. To find that the goods at issue fit this description is to turn the English language on its head! Goods, such as the shoes at issue here, manufactured, as the record shows, at the behest and pursuant to the specifications of El Greco, simply do not fit the dictionary definitions of the language of 15 U.S.C. 1114(1).

Moreover, the majority ruling constitutes a significant departure from applicable Second Circuit precedent in *Olympus Corp. v. United States, 792 F.2d 315, 321 (2d Cir. 1986)*, precedent that the appellate majority below simply failed to address. The result is an unwarranted expansion of the rights and remedies provided by the Lanham Act (15 U.S.C. § 1051 et seq.) and specifically an unwarranted

extension of the remedies provided by 15 U.S.C. 1114(1).

In *Olympus*, Olympus Corp., the wholly owned subsidiary of the Japanese based Olympus Optical Company, Ltd., was the exclusive distributor of OLYMPUS brand cameras, which are made in Japan. The New York corporation owned the U.S. registration for the OLYMPUS mark. Several importers brought in OLYMPUS brand cameras, purchased overseas at prices sufficiently low to permit their sale in the U.S. at discount prices. The trademark owner brought suit and included a Lanham Act count pursuant to 15 U.S.C. § 1124 (Section 42 of the Lanham Act), which prohibits the importation of merchandise "which shall copy or simulate a trademark registered in accordance with ... this Act."

There, the goods at issue were found to be genuine because they were *lawfully* manufactured and the trademark *lawfully* affixed to the goods overseas, in that case not by a licensee (as here) but by the parent of the U.S. subsidiary company that owned the trademark in the United States. These goods were purchased *lawfully* overseas and imported into the United States, without the permission of the U.S. trademark owner.

Such merchandise was found to be genuine and its sale not a violation of the Lanham Act because the goods did not fall within the proscription of Section 42, i.e., did not "copy or simulate the name of a domestic manufacturer".

As noted in *Olympus* by the Court of Appeals:

> The plain language of the statute does not bar importation if the goods are genuine, only if they 'copy or simulate' a trademark.

792 F.2d at 321.

Concededly, the Lanham Act count here asserted by El Greco is not premised on section 42, 15 U.S.C. 1124 but rather [as in ***DEP***] on section 32, 15 U.S.C. 1114(1). However, both sections are intended to proscribe "infringement". In fact, section 32 is entitled "Remedies - Infringement" and establishes liability against one who uses "any reproduction, counterfeit, copy or colorable, imitation of a registered mark". Section 42, entitled "Importation of Goods Bearing Infringing Marks or Names Forbidden", prohibits articles which "copy or simulate" a registered trademark.

To Petitioner's knowledge, no case has distinguished any different standard for determining whether merchandise shall "copy or simulate" on the one hand or, on the other, constitute a "reproduction,

counterfeit, copy or colorable imitation".

For example, the Lanham Act defines a colorable imitation at 15 U.S.C. § 1127 as a mark "which so resembles a registered mark as to be likely to cause confusion or mistake or to deceive". A counterfeit mark is defined in that same section as "a spurious mark which is identical with, or substantially indistinguishable from a registered mark." The Supreme Court has defined colorable imitation as requiring "careful inspection to distinguish the spurious trademark from the genuine". McLean v. Fleming, 96 U.S. 245, 255 (1878). The Supreme Court has also observed:

> Not only exact reproduction, but a 'colorable imitation' is within the statute; otherwise, the trademark would be of little avail as by shrewd *simulation* it could be appropriated with impunity.

Thaddeus Davids Co. v. Davids Mfg. Co., 233 U.S. 461 (1914) (emphasis added). The word "copy" as used in both section 32 and section 42 clearly means the same in each.

Notwithstanding the different terminology appearing in sections 32 and 42, it seems evident that if the sale of the goods at issue here would not, under *Olympus*, constitute a violation of section 42, their sale should not be found to violate section 32, as held by the majority below.

Indeed, in *NEC Electronics v. CAL Circuit Abco, 810 F.2d 1506 (9th Cir. 1987)*, the Court of Appeals for the Ninth Circuit, in a discussion of the *Olympus* case, and in the context of denying an injunction under section 32 against the importation of the computer chips there at issue, stated:

> [T]he Olympus Court concluded that Section 42 of the Lanham Act, 15 U.S.C. § 1124, barring importation of goods that 'copy or simulate' a trademark, did not apply to genuine goods ... We think this conclusion correct for §§ 32 and 43 of the Lanham Act as well.

Id. at 1510.

Just as a mark applied with the authority of the trademark holder does not "copy or simulate" under section 42, it cannot be deemed a "reproduction, counterfeit, copy, or colorable imitation" pursuant to section 32. The holding in *Olympus* with regard to section 42 compels a similar construction of section 32. By failing to make such a construction, the majority has permitted a trademark holder to limit distribution of a product to which a trademark was lawfully applied.

This novel expansion of a trademark holder's "rights" is reflected in the

majority's statement that once El Greco had rejected the goods it was "entitled to assume", among other things, that the shoes would not be sold without affording El Greco the opportunity to inspect them or provide instruction as to their disposition. While El Greco might, under its contract with Solemio, enjoy such rights, its *only* recourse as to Shoe World, under trademark law, is to prevent use of a "reproduction, counterfeit, copy, or colorable imitation ..." under 15 U.S.C. 1114(1). The majority below granted El Greco far more than that as a result of its decision. It granted El Greco the right to interfere with the distribution of genuine merchandise. While the sale by Solemio may have violated contract terms, the purchase and resale by Shoe World clearly did not. To find, as did the majority below, that

Shoe World's actions constituted trademark infringement is to rewrite the Lanham Act in a manner never contemplated.

Conclusion

The importance of the issues of law and fact arising from the importation of goods manufactured abroad was recognized by the Supreme Court when it decided to review the decision in *COPIAT v. United States, 790 F.2d 903 (D.C. Cir.), cert. granted, K-Mart Corp. v. Cartier, Inc., 107 S. Ct. 642 (1986).* The directly related issues of genuineness, infringement and proper standard of appellate review presented in the instant case demand similar attention. Should writ not be granted, each licensee or manufacturer of trademarked goods will be faced with an implied and arbitrary right of the trademark owner to avoid its obligations by simple refusal to stamp the

goods despite ample opportunity and reason to do so. Moreover, such an allowance will affect licensees and manufacturers differently depending upon which Circuit suit is brought. This is unfair and improper.

Certiorari should be granted.

Respectfully submitted,

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APPENDIX

UNITED STATES COURT OF APPEALS
SECOND CIRCUIT

At a stated term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse, in the City of New York, on the 26th day of January one thousand nine hundred and eighty-seven.

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EL GRECO LEATHER PRODUCTS COMPANY INC. d/b/a CANDIE'S INTERNATIONAL.

Plaintiff-Appellant. Cross-Appellee.

-against-

SHOE WORLD, INC., d/b/a GUSSINI.

Defendant-Appellee. Cross-Appellant.

Docket Nos. 86-7032. 86-7038

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A petition for rehearing containing a suggestion that the action be reheard in banc having been filed herein by counsel for the **Defendant-Appellee, SHOE WORLD, INC. d/b/a GUSSINI,**

Upon consideration by the panel that heard the appeal, it is

Ordered that said petition for rehearing is DENIED.

It is further noted that the suggestion for rehearing in banc has been transmitted to the judges of the court in regular active service and to any other judge that heard the appeal and that no such judge has requested that a vote be taken thereon.

Elaine B. Goldsmith
Clerk

UNITED STATES COURT OF APPEALS

For the Second Circuit

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No. 1036 August Term 1985

Argued: March 31, 1986

Decided: December 3, 1986

Docket Nos. 86-7032, 86-7038

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EL GRECO LEATHER PRODUCTS CO., INC. d/b/a CANDIE'S INTERNATIONAL,

Plaintiff-Appellant, Cross-Appellee,

-against-

SHOE WORLD, INC., d/b/a GUSSINI,

Defendant-Appellee, Cross-Appellant.

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Before: KEARSE, PRATT, and ALTIMARI, Circuit Judges.

Appeal from an order of the United States District Court for the Eastern

District of New York, I. Leo Glasser, Judge, denying a permanent injunction on the basis that defendant's unauthorized sale of plaintiff's genuine goods did not give rise to the likelihood of confusion necessary to maintain a federal trademark infringement action. Cross-appeal on denial of sanctions.

Appeal reversed and remanded; cross-appeal affirmed.

J. JOSEPH BAINTON, New York, NY (Reboul, MacMurray, Hewitt, Maynard & Kristol, of Counsel), for Plaintiff-Appellant, Cross-Appellee.

EDWARD V. FILARDI, New York, NY (Brumbaugh, Graves, Donohue & Raymond, of Counsel), for Defendant-Appellee, Cross-Appellant.

PRATT, Circuit Judge:

This appeal presents an issue under § 32 of the Lanham Act, 15 U.S.C. § 1114, specifically, whether goods manufactured by agreement with the holder of a

trademark, but distributed without authorization of the holder, may be considered "genuine" for purposes of trademark protection. Because we conclude that such goods cannot be considered genuine, we reverse.

BACKGROUND

On March 17, 1983, Solemio, a Brazilian shoe factory, contracted with El Greco Leather Products Company, Inc. to manufacture 25,000 pairs of shoes bearing El Greco's trademark CANDIE'S. Solemio was to ship the shoes no later than June 15, 1983, in seven lots, A through G, each consisting of approximately 3600 pairs. Upon each shipment, El Greco was to pay Solemio $7.10 per pair, through a letter of credit. El Greco's agent in Brazil, Sapatus Assessoria e Lancomentos Ltd. ("Sapatus"), was to inspect the shoes before shipment in order to assure

that they met El Greco's specifications and quality standards. Payment under the letter of credit could not be made without a certificate of inspection signed by Sapatus on behalf of El Greco, declaring that the merchandise had been "approved for shipment in accordance with buyer's delivery and quality specifications."

It soon became apparent that El Greco was not satisfied with Solemio's performance. Whether due to inferior quality or production delays, El Greco eventually cancelled its order for the last two lots, F and G, and transferred those orders to another factory. The official reason given by El Greco was production delays which had made it impossible for Solemio to deliver by the June 15th deadline; but it is unclear whether these delays were, in turn, caused by quality-

control problems or simply an inability to produce the required output by the required date. In either case, no certificate of inspection was ever issued for the shoes Solemio manufactured for lots F and G.

Despite the cancellation, the shoes that were to be shipped as lots F and G were apparently manufactured by Solemio. The district court found that they had in fact been completed, at least in substantial part, at the time El Greco cancelled its order, and that El Greco did not specifically instruct Solemio on how to dispose of the shoes.

Solemio then sold the shoes, through an intermediary, to defendant Shoe World, Inc. All told, Shoe World purchased just over 7000 pairs bearing the CANDIE'S trademark at $4.00 per pair, F.O.B Brazil, or $3.10 less than the original

price paid by El Greco. Shoe World resold the CANDIE'S shoes for $13.88 per pair, the uniform price it charged for all shoes sold in its retail stores.

In October 1983 El Greco, which was selling its "current" style of CANDIE'S shoes for $35.00, learned that Shoe World was selling the same shoes for $13.88. Knowing that El Greco had never sold the shoes to Shoe World, on October 27, 1983, Charles Cole, president of El Greco, telephoned Paul Gussin, the president of Shoe World, inquiring as to where Shoe World had obtained the shoes and demanding that Shoe World discontinue selling them. Shoe World continued to sell the shoes.

Shortly thereafter, El Greco brought this suit, alleging trademark infringement in violation of the Lanham Act, 15 U.S.C. §§ 1114, 1125(a) and 1126(g),

unfair competition, violation of New York Gen. Bus. L. §§ 368-b, 368-d and 279-n, and violation of the Genuine Goods Exclusion Act, 19 U.S.C. § 1526.

DECISION BELOW

After a trial in January 1984 the district court on December 21, 1984, dismissed El Greco's complaint for a permanent injunction barring Shoe World from using the CANDIE'S mark on any goods sold by it. El Greco Leather Products Co. v. Shoe World, Inc., 599 F. Supp. 1380 (E.D.N.Y. 1984). On the Lanham Act claims, the court held that the shoes in question were genuine within the meaning of the statute, and that their sale, even though unauthorized by El Greco, could not constitute a violation of § 1114 and § 1125(a). The court further found § 1126(g) unavailable to El Greco, a domestic corporation, because the sec-

tion protects only "the trade or commercial names of any foreign national whose country of origin is party to any convention or treaty relating to trademarks". 599 F. Supp. at 1391.

The court went on to hold that no case of unfair competition had been made out, basing this holding on the conclusion that since the shoes were genuine CANDIE'S shoes, there was no "likelihood of confusion" of the buying public. From this conclusion the court reasoned that there was also no trademark infringement under New York law, nor violation of New York General Business Law § 279-n.

Finally, the court rejected El Greco's claim under § 526 of the Tariff Act of 1930, the Genuine Goods Exclusion Act, 19 U.S.C. § 1526. The court concluded that § 526 applied to situations in which a trademark is held by one party in the

United States and another party elsewhere; that there was no holder of the CANDIE'S trademark other than El Greco; that the statute was designed to prevent importation of products of a second holder which could validly be sold under the trademark elsewhere, but not in the United States; and that since the shoes at issue here were manufactured not by or for some second holder of the CANDIE'S trademark but rather for El Greco itself, no claim was established under § 526. This appeal followed.

DISCUSSION

The heart of this case is whether the shoes at issue were "genuine" for purposes of the Lanham Act. We conclude that the district court erred as a matter of law when it held that the CANDIE'S shoes being sold without El Greco's per-

mission or even knowledge were "genuine" CANDIE'S shoes.

A. The Genuineness of the Shoes Sold by Shoe World

In order to make out a claim for trademark infringement, a holder must show, inter alia, that the alleged infringement is "likely to cause confusion, or to cause mistake, or to deceive." 15 U.S.C. § 1114(a). Shoe World strenuously urges that the sale of "genuine" goods cannot give rise to the necessary likelihood of confusion, citing Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983), and DEP Corp. v. Interstate Cigar Co., 622 F.2d 621, 622 n.1 (2d Cir. 1980). Even if this is so, however, the goods sold by Shoe World cannot be considered genuine.

One of the most valuable and important protections afforded by the Lanham Act is

the right to control the quality of the goods manufactured and sold under the holder's trademark. Menendez v. Faber, 345 F. Supp. 527 (S.D.N.Y. 1972), aff'd in relevant part and modified, 485 F.2d 1355 (2d Cir. 1973), modification rev'd sub nom. Alfred Dunhill, Inc. v. Republic of Cuba, 425 U.S. 682 (1976). For this purpose the actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain. Professional Golfers Association of America v. Bankers Life & Casualty Co., 514 F.2d 665, 670-71 (5th Cir. 1975).

The holder of a trademark is entitled to require, as El Greco did here, that no merchandise be distributed without its first being inspected by the holder or its agent to insure quality. Here, not only did El Greco not waive the right to

such inspection, it required the inspection certificate as a condition for Solemio to draw upon the letter of credit.

The original order placed by El Greco specifically restricted distribution of the shoes with the CANDIE'S mark. As the district court noted, "No shoes are approved or accepted unless and until a principal of Sapatus [El Greco's agent in Brazil] signs an Inspection Certificate certifying that the lot of shoes to which it relates fully complies with [El Greco's] standards and specifications." 599 F. Supp. at 1384. It is undisputed that no such certificates of inspection were ever signed or issued with respect to lots F and G.

The certificates of inspection required in this case were an integral part of appellant's effort at quality

control. Earlier inspections by Sapatus of the shoes that eventually comprised lots A-E resulted in some shoes being rejected, and in changes in the procedures being followed in production. 599 F. Supp. at 1385. While we accept as not clearly erroneous the conclusion of the district court that poor quality was not the reason lots F and G were cancelled, the inspection step was nevertheless an integral part of El Greco's procedure for determining whether to accept shoes and allow them to be sold under its trademark.

The district court concluded the shoes were "genuine" because they had been manufactured pursuant to an order by El Greco, the undisputed holder of the CANDIE'S trademark, and because El Greco did not specifically instruct Solemio on

how to dispose of the shoes once it cancelled the order.

This is an unjustifiably narrow view of the protection afforded trademark holders by the Lanham Act. The mere act of ordering a product to be labeled with a trademark does not deprive its holder of the right to control the product and the trademark. It is true that El Greco did not, at the time it cancelled the last two lots of its order, give instructions on how to dispose of the shoes that had already been manufactured and affixed with the CANDIE'S trademark. But we do not view such a step as necesseary on the facts presented here.

Once it cancelled the order, El Greco was entitled to assume that Solemio would not dispose of the shoes without either removing the CANDIE'S trademark (as is the custom and practice in the industry),

or affording El Greco an opportunity to inspect the goods and certify their quality prior to disposal, or, at the minimum, seeking instructions from El Greco on how to dispose of them. Since Solemio, at best, received no instructions from El Greco, this case is distinguishable from Diamond Supply Co. v. Prudential Paper Products Co., 589 F. Supp. 470 (S.D.N.Y. 1984), wherein the trademark holder specifically instructed the manufacturer that he "did not care" how the cancelled goods were disposed of. 589 F. Supp. at 474. No similar waiver here was given, or even sought.

B. The District Court's Disposition of Appellant's Claims

The district court's dismissal of appellant's claims was based largely on its erroneous conclusion that the shoes in question were genuine and therefore that sale of them could not cause

confusion. Since we conclude that the shoes were not genuine CANDIE'S shoes, it is plain that appellant has made out a violation of § 32(1) of the Lanham Act, 15 U.S.C. § 1114(1). That section provides:

> Any person who shall, without the consent of the registrant--
> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale ... of any goods or services on or in connection with which such use is likely to cause confusion .... shall be liable in a civil action by the registrant ....

15 U.S.C. § 1114(1).

El Greco is entitled to relief under this provision. The shoes sold by Shoe World were not genuine CANDIE'S shoes, and El Greco never gave its consent to the use of the mark on those shoes. Even though Shoe World was involved neither in the manufacture nor the affixing of the CANDIE'S trademark to the shoes, its sale

of the shoes was sufficient "use" for it to be liable for the results of such infringement and its claimed lack of knowledge of its supplier's infringement, even if true, provides no defense. See De Acosta v. Brown, 146 F.2d 408, 410-12 (2d Cir. 1944), cert. denied, 325 U.S. 862 (1945); Bowmar Instrument Corporation v. Continental Microsystems, Inc., 497 F. Supp. 947, 957 (S.D.N.Y. 1980); 2 J. McCarthy, Trademarks and Unfair Competition § 25.5, at 179 (2d ed. 1983); 3 M. Nimmer on Copyright ¶ 13.08, at 13-136, 13-138 (1986). Shoe World made no inquiry, and certainly had no reason to believe that El Greco was aware or had approved of its use of the mark. Shoe World could have easily ascertained whether the shoes in question were genuine.

We find it unnecessary to pass upon appellant's remaining claims of trademark infringement, unfair competition, and a violation of the New York General Business Law. Appellant is entitled to the permanent injunction it seeks and to a remand for a determination of damages based solely on the Lanham Act violation.

No. 86-7032 is reversed and remanded. No. 86-7038, denying Shoe World's motion for sanctions pursuant to rule 11, Fed. R. Civ. P., is affirmed.

El Greco Leather Products Company, Inc. d/b/a Candie's International ... Shoe World, Inc. d/b/a Gussini

86-7032, 7038

ALTIMARI, J., concurring in part and dissenting in part:

I most respectfully dissent from the opinion of the majority which reverses the district court's decision and remands for a hearing on the question of damages. I concur, however, in so much of the decision as affirms the district court's denial of Rule 11 sanctions.

The majority concludes as a matter of law that the shoes, although manufactured at the direction of the plaintiff-trademark holder and labelled, as authorized, with plaintiff's federally registered trademark, were not genuine CANDIE's shoes, and thus that the sale of these shoes constituted trademark infringement. The majority's classifica-

tion of the question of genuineness as one of law rather than of fact and its underinclusive definition of genuine prompts this dissent. More generally, I disagree with the application of federal trademark law to cases, such as the instant one, in which a retailer purchases goods bearing a registered trademark from a manufacturer who is under contract with the trademark owner to produce those goods and who is authorized to affix the trademark.

1. Finding of Fact - Genuineness

Trademark infringement actions by their nature require courts to weigh and resolve factual questions and thus are subject to review under the "clearly erroneous" standard of Federal Rule of Civil Procedure 52(a). See Sheila's Shine Products, Inc. v. Sheila Shine, Inc., 486 F.2d 114, 122 (5th Cir. 1973).

Courts must for instance resolve the ultimate factual question in trademark infringement cases of "whether there is any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused as to the source of the goods in question." Mushroom Makers, Inc. v. R. G. Barry Corp., 580 F.2d 44, 47 (2d Cir. 1978) (citing Maternally Yours, Inc. v. Maternity Shop, Inc., 234 F.2d 538, 542 (2d Cir. 1956), cert. denied, 439 U.S. 1116 (1979). When evaluating the likelihood of such confusion, courts apply the factors laid out in the well-known case of Polaroid Corp. v. Polaroid Electronics Corp., 287 F.2d 492 (2d Cir.), cert. denied, 368 U.S. 820 (1961):

> Where the products are different, the prior owner's chance of success is a function of many variables: the strength of his mark, the degree of similarity between the two marks, the proximity of the

> products, the likelihood that the prior owner will bridge the gap, actual confusion, and the reciprocal of defendant's good faith in adopting its own mark, the quality of defendant's product, and the sophistication of the buyers.

Id. at 495 (citing Restatement of Torts §§ 729-731). The assessment of these factors consistently has been held to be a question of fact reviewable under the clearly erroneous standard, see, e.g., Plus Products v. Plus Discount Foods, Inc., 722 F.2d 999, 1004 (2d Cir. 1983), and only the question of the "relative weight... of [these] findings is reviewable... as a matter of law." Id. at 1005 (citations omitted).

Courts must consider factual questions closely akin to those raised when evaluating the likelihood of purchaser confusion when determining whether a product is genuine: similarity of the marks, product proximity and quality.

Determinations of genuineness, in addition, frequently necessitate an assessment of another factual question - - the trademark owner's intent when farming out its manufacturing and labelling duties. In the instant case, the district court sifted through evidence regarding the following questions: authorization to manufacture and label, the extent that the goods were completed, the quality of the product, and the nature of the instructions given as to the disposal of cancelled goods. See generally Anderson v. City of Bessemer City, North Carolina, _____ U.S. ___, 105 S. Ct. 1504, 1512 (1985) (where disputed questions of fact exist, district court's findings subject to clearly erroneous standard even if based on physical or documentary evidence rather than on credibility determinations). Accordingly, I suggest that the

question of genuineness should have been reviewed by the majority not as a question of law but instead as a question of fact subject to the "clearly erroneous" standard.

2. "Genuineness"

The majority in considering whether the shoes at issue were "genuine" focuses on the fact that the plaintiff-trademark owner had not given its final stamp of approval, in the form of an inspection certificate, to the manufactured goods. The majority holds that in the absence of such an inspection certificate, which the majority characterizes as "an integral part of the [trademark owner's] effort at quality control," the goods were distributed in an unauthorized manner and thus could not be considered genuine. I submit that this holding is incorrect and

thus would affirm the district court's decision.

Generally, goods are characterized as either "genuine" or "spurious", with the former designation indicating that the goods are of a "reputed ... quality" or are "actually produced by or proceed[] from the alleged source," Webster's Ninth New Collegiate Dictionary 512 (1984), and the latter connoting a "deceitful nature or quality" or a "falsified or erroneously attributed origin." Id. at 1143; see Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054, 1058 (9th Cir. 1983) (Genuine products are "planned and sponsored by [the trademark holder] and produced for it on contract for future sale."); see also 3A Callmann, Unfair Competition Trademarks and Monopolies § 21.06 at 23 (L. Altman 4th ed. 1983) (Genuine goods are those

"which emanate from the plaintiff or his affiliates.").

As long as the goods are manufactured under the direction of the trademark owner, bear the trademark registered and issued by the trademark owner, and are not of an inferior quality, the products are considered genuine. It is not necessary to a finding of genuineness that the goods be distributed with the trademark holder's express authorization. See Olympus Corp. v. United States, 792 F.2d 315, 321 (2d Cir. 1986) (goods manufactured and marked abroad by parent of trademark holder and imported without permission adjudged genuine since they did not bear "counterfeit or spurious trademarks"); Monte Carlo, 707 F.2d 1054 (goods manufactured according to trademark owners' specifications and bearing its label but distributed to discount

retailers without permission of trademark owner deemed "genuine"); DEP Corp. v. Interstate Cigar Co., 622 F.2d 621, 621 & 622 n.1 (2d Cir. 1980) (goods considered genuine as there was "no difference between the product sold by [trademark owner] and that sold by [alleged infringer]," although source of goods not trademark owner but "European middlemen"); cf. Adolph Coors Co. v. A. Genderson & Sons, Inc., 486 F. Supp. 131 (D.Colo. 1980) (unauthorized sale of beer manufactured and trademarked by trademark owner constituted an infringement since sold in a damaged and inferior condition).

In the instant case, the plaintiff-trademark owner contracted with Brazilian manufacturers for the production of its shoes, and as part of this arrangement permitted the manufacturers to affix its

trademark labels to the shoes. The manufacturers completed and labelled the shoes as specified, but as the district court found, the order was cancelled not for substandard quality but for the "reason of late delivery only." No directions regarding the disposal of such cancelled goods were provided to the manufacturers, nor were the manufacturers unambiguously restricted from independent distribution. Most importantly, the facts indicate that the snoes were not inferior imitations produced by defendant or an entity independent of the trademark owner. The goods were not altered, reconditioned, repackaged, or resold. See Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947); see generally Callmann, supra § 21.13-16 at 62-73.

As Justice Holmes stated,

> A trade mark only gives the right to prohibit the use of it so far as to protect the

> owner's good will against the sale of another's product as his. . . . When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth.

Prestonnettes, Inc. v. Coty, 264 U.S. 359, 368 (1924) (citations omitted). The defendant did not attempt to deceive purchasers. Instead, the defendants, in what appears to be good faith, purchased shoes of a good quality from a manufacturer who was under contract with the trademark owner to produce the shoes and affix labels to them. Based on these facts, I would not impose liability on defendant-retailer for trademark infringement and would affirm the district court's decision in its entirety.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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EL GRECO LEATHER PRODUCTS CO., INC. d/b/a CANDIE'S INTERNATIONAL,	:	JUDGMENT
	:	CV 83 5376 (ILG)
Plaintiff,	:	
-against-	:	
SHOE WORLD, INC., d/b/a GUSSINI,	:	
	:	
Defendant.	:	
	:	

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A memorandum and order of Honorable I. Leo Glasser, United States District Judge, having been filed on December 16, 1985, denying the plaintiff's and the defendant's motions for an award of attorneys fees pursuant to F. R. Civ. Pro.II; and granting plaintiff's summary judgment to dismiss the defendant's six counterclaims as a matter of law, it is

ORDERED and ADJUDGED that the plaintiff's and the defendant's motions

for an award of attorneys fees are denied; and that plaintiff's motion for summary judgment dismissing the defendants' six counterclaims is granted and the action is dismissed.

/S/ ROBERT C. HEINEMANN
ROBERT C. HEINEMANN
Clerk of Court

Dated: Brooklyn, New York
December 18th, 1985

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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EL GRECO LEATHER PRODUCTS CO., INC. d/b/a CANDIE'S INTERNATIONAL, : 83 Civ. 5376

Plaintiff, :

-against- : MEMORANDUM AND ORDER

SHOE WORLD, INC., d/b/a GUSSINI, :

Defendant. :

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GLASSER, United States District Judge:

El Greco Leather Products Co., Inc. ("El Greco") initiated this action against Shoe World, Inc. ("Shoe World") in December 1983 alleging, inter alia, trademark infringement and unfair competition. In response, Shoe World alleged counterclaims for defamation, trade defamation and disparagement, tortious interference, unfair competition, prima facie tort and abuse of civil process. After a

hearing held on January 10 and January 19, 1984, I denied El Greco's application for a preliminary injunction restraining Shoe World from using the mark "CANDIE'S" on any goods sold by Shoe World, finding that El Greco had failed to establish the existence of irreparable harm. In a decision dated December 21, 1984, I denied El Greco's request for a permanent injunction, ruling against its claims on the merits, and finding that the balance of equities did not weigh in its favor. El Greco Leather Products Co. v. Shoe World, Inc., 599 F. Supp. 1380 (E.D.N.Y. 1984).

This action is now before me on cross-motions. Shoe World has moved under Fed.R.Civ.P. 11 for an award of attorney's fees for the costs of defending this entire action. El Greco has responded asserting that it should be

awarded fees for the costs of defending against Shoe World's motion. In addition, El Greco has moved for summary judgment dismissing Shoe World's claims against it. I will deal with each of these motions in turn.

I. Rule 11 Motions

A. Shoe World's Motion

This Circuit has recently framed a standard to be used in deciding Rule 11 motions:

> [S]anctions shall be imposed against an attorney and/or his client when it appears that a pleading has been interposed for any improper purpose, or where, after reasonable inquiry, a competent attorney could not form a reasonable belief that the pleading is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification or reversal of existing law.

Eastway Const. Corp. v. City of New York, 762 F.2d 243, 253 (2d Cir. 1985) (empha-

sis in original) (footnote omitted). Shoe World's motion seeks the imposition of sanctions for each of the wrongs redressable under Rule 11 -- it attacks both the factual and legal underpinnings of El Greco's lawsuit, and alleges that the entire lawsuit was instituted "with the specific intent to publicize falsehoods about Shoe World for [El Greco's] own unfair gain and to harass Shoe World." Shoe World's Brief at 2.

A brief review of the history of this litigation, as recounted in my earlier decision, will be helpful in deciding Shoe World's motions:

> [El Greco] filed this action, along with an order to show cause for a temporary restraining order and preliminary injunction, on December 13, 1983. The complaint alleges that [Shoe World] sold shoes which "duplicate shoe styles of [El Greco]" and are "counterfeit." ...
>
> On December 20, 1983, a temporary restraining order was en-

> tered by this Court enjoining [Shoe World] from selling shoes bearing plaintiff's trademark CANDIE'S. On December 30, 1983, the temporary restraining order was vacated by Judge Platt on a showing that the allegedly infringing shoes had been originally made at plaintiff's request by one of its Brazilian manufacturers and were not "counterfeit" within the usual meaning attached to that word.

599 F. Supp. at 1389. Notwithstanding Judge Platt's action, El Greco pressed its request for an injunction:

> [El Greco] adheres to the position that these CANDIE'S shoes are "counterfeit" because even if the Brazilian factories could be found to have legitimately applied the mark to the shoes, [El Greco's] cancellation of the various shoe orders impliedly revoked the manufacturer's authority to dispose of any of the shoes without removing the CANDIE'S mark. [El Greco] urges that its mark is infringed because it did not authorize the sale of its cancelled goods.

Id. at 1390 (footnote omitted).

On the record developed before me, I concluded "that the goods in controversy are 'genuine' CANDIE'S shoes which may have been improperly disposed of by [El Greco's] Brazilian manufacturers." Id. Having arrived at this factual conclusion, I then considered and rejected El Greco's "claims for trademark infringement for the allegedly unauthorized sale of genuine goods." Id.

In light of this history, Shoe World's motion is framed somewhat in the alternative, focusing on the source of the goods that were the subject matter of this suit. Shoe World argues that to the extent that El Greco did not know that these goods had originated from its Brazilian manufacturer, it had failed to make the "reasonable inquiry" required by Rule 11. On the other hand, to the

extent that El Greco's president did have information about the source of the allegedly infringing shoes, the allegation in El Greco's complaint and in its papers in support of a temporary restraining order that these shoes were "counterfeit" was, according to Shoe World, an attempt to foist a fraud on this court and could only have been made with the intent of damaging Shoe World's reputation.

Despite Shoe World's arguments, I am not persuaded that this is a case in which Rule 11 sanctions should be imposed. I cannot conclude that El Greco did not make a "reasonable inquiry" before proceeding with this lawsuit. This is not a case in which "there is not the slightest suggestion in any paper before the Court that <u>any</u> inquiry was made to lend some assurance that the

allegations of the complaint were well grounded in fact." Viola Sportswear, Inc. v. Mimun, 574 F. Supp. 619, 621 (E.D.N.Y. 1983) (emphasis in original). It is clear that El Greco did make some inquiry; it is also clear that it might have done more. However, Rule 11 does not require courts to make a post hoc assessment of the precise amount of investigation that should have been made prior to the filing of a lawsuit: "Courts must strive to avoid the wisdom of hindsight in determining whether a pleading was valid when signed, and any and all doubts must be resolved in favor of the signer." Eastway, supra, 762 F.2d at 254.

The weightier charge leveled by Shoe World is that El Greco knew the source of the shoes, yet brought this lawsuit alleging that the shoes were "counterfeit"

with the intent to tarnish Shoe World's reputation. This charge is essentially an argument that, given the facts of this case, this lawsuit is legally baseless -- that it should never have been brought in the first place, and that, when El Greco learned the source of the shoes, it should have been discontinued. I admit that I am troubled by El Greco's use of the word "counterfeit" to describe merchandise whose sale by the manufacturer was unauthorized but which is otherwise genuine. I find this usage to be at best, exaggerated, and at worst, misleading. Nevertheless, I cannot conclude that the underlying legal issue, whether the unauthorized sale of otherwise genuine goods can constitute some form of trademark infringement, is a frivolous one. Although I ruled against El Greco on all of its arguments, an unsuccessful

lawsuit is not necessarily a baseless one punishable under Rule 11. Rule 11 has been violated "where it is patently clear that a claim has absolutely no chance of success under the existing precedents, and where no reasonable argument can be advanced to extend, modify or reverse the law as it stands." Eastway, supra, 762 F.2d at 254. On this basis, Shoe World's Rule 11 motion is denied.(1)

B. El Greco's Motion

On the basis of the same principle, El Greco's motion for Rule 11 sanctions must also be denied. As Shoe World correctly points out, the possibility of a Rule 11 motion was contemplated early on in these proceedings. Although I have just denied that motion, I cannot find that Shoe World has acted in bad faith in bringing this motion, or that tne motion itself "was destined to fail." Eastway,

supra, 762 F.2d at 254. Accordingly, El Greco's motion is denied.

II. El Greco's Motion for Summary Judgment

El Greco has moved for summary judgment of Shoe World's six counterclaims claiming that each is deficient as a matter of law. Shoe World's counterclaims are all in the same vein as its Rule 11 motion. All allege in some fashion that El Greco initiated this lawsuit in bad faith and with the intent of injuring Shoe World. I have ruled adversely on Shoe World's Rule 11 motion; however, the role of this Court in deciding a motion for summary judgment is a narrow one:

> [T]he responsibility of the district judge on a motion for summary judgment is merely to determine whether there are issues to be tried, rather than to try the issues himself via affidavits.

Jaroslawicz v. Seedman, 528 F.2d 727, 731 (2d Cir. 1975). Nevertheless, for the reasons set forth below, I find that El Greco's motion should be granted in full.

A. Defamation

Shoe World's first counterclaim, and the one most strenuously contested by both parties, is an action for defamation. The focus of Shoe World's claim is an article published in Footwear News, a trade publication, on December 19, 1983, one week after the filing of the complaint in this action. That article, it is contended, contained "false and derogatory statements to the effect that Shoe World was engaged in counterfeiting and other unfair trade practices, including trademark infringement...." Shoe World's Answer at ¶ 35. Shoe World contends, and El Greco does not contest, that a copy

of the papers in this action was delivered to a reporter for Footwear News by El Greco, and that a spokesman for El Greco, Neil Cole, provided the reporter with further information about El Greco's charges against Shoe World. Shoe World thus seeks to hold El Greco responsible as the source of the allegedly defamatory information published in the Footwear News article.

El Greco responds that insofar as the statements published in Footwear News convey information about El Greco's lawsuit against Shoe World, they should be deemed absolutely privileged because of Section 74 of the New York Civil Rights Law. That statute provides, in pertinent part:

> A civil action cannot be maintained against any person, firm or corporation for the publication of a fair and true report of any judicial proceeding. . .

N.Y. Civ. Rights L. § 74 (McKinney's 1976). On its face, Section 74 would appear to present a complete defense for El Greco, warranting dismissal of this claim. Shoe World, however, offers three reasons why its claim should not be dismissed. First, it argues that this case falls within a judicially-created exception to Section 74. Second, it contends that even if Section 74 does apply generally, the Footwear News article, insofar as it contains information not made explicit in El Greco's complaint, is not "a fair and true report" subject to protection under the statute. Finally, it suggests that its claim for defamation is not limited solely to the statements published in Footwear News.

The most substantial issue put forth by Shoe World is whether, despite the interdiction of Section 74, this action

should be permitted to continue under the exception created in Williams v. Williams, 23 N.Y.2d 592, 298 N.Y.S.2d 473 (1969). In Williams, the New York Court of Appeals upheld against a motion to dismiss, a claim that an action had been instituted "for the sole purpose of re-publishing the libelous statements set forth in the complaint...." Branca v. Mayesh, 101 A.D.2d 872, 476 N.Y.S.2d 187, 188 (2d Dep't), aff'd on opinion below, 63 N.Y.2d 994, 483 N.Y.S.2d 1011 (1984). Shoe World argues that this case fits within the confines of the Williams exception, alleging that "[El Greco] maliciously instituted this lawsuit for the collateral and insidious purposes of falsely labelling Shoe World as a counterfeiter and communicating that charge to the footwear trade." Shoe World's 3(g) Statement at ¶ 5. While such an al-

legation would suffice to uphold a claim against a motion to dismiss, this Court must determine, on a motion for summary judgment, whether Shoe World "has alleged facts which, if proven, would fall within the Williams exception to Section 74." Bridge C.A.T. Scan Associates v. Ohio Nuclear Inc., 608 F. Supp. 1187, 1195 (S.D.N.Y. 1985).

Shoe World suggests that there are several facts in dispute that should prevent this Court from granting summary judgment. For example, it argues that El Greco's "malice and bad faith" can be inferred from the omission of certain facts from its complaint, e.g., the existence of prior dealings between the parties. Shoe World's Brief at 14-15; see also Shoe World's 3(g) Statement at ¶ 6. While these omissions may have skewed El Greco's presentation of its

case, they do not support the inference that "the entire lawsuit was maliciously instituted for the purpose of disseminating defamatory material to the press." The Savage Is Loose Co. v. United Artists Theatre Circuit, Inc., 413 F. Supp. 555, 561 n.3 (S.D.N.Y. 1976). The same must be said of Shoe World's argument that the use of the word "counterfeit" was too extreme: "a simple allegation of trademark infringement would have been sufficient." Shoe World's Brief at 14. Although I have already stated that this usage was troublesome, see p. 5 supra, I cannot conclude that the Williams exception to an otherwise absolute privilege, see Williams, supra, 23 N.Y.2d at 597-98, 298 N.Y.S.2d at 477-78, was meant to extend to every overzealous but ultimately unsuccessful litigant.

A far more troubling accusation made by Shoe World is that El Greco deliberately delayed the filing of this lawsuit and the attendant publicity of the Footwear News article "to coincide with the National Shoe Show and Volume Retailers Shoe Show held in New York City in December 1983 in order to ensure rapid and widespread dissemination of [El Greco's] defamatory statements to the footwear trade." Shoe World's 3(g) Statement at ¶ 8; see also April 26, 1985 Affidavit of Paul Gussin at ¶¶ 3-7. Such an accusation, if proven, could lead a jury to conclude tht this entire lawsuit was a "perversion of judicial proceedings," Williams, supra, 23 N.Y.2d at 599, 298 N.Y.S.2d at 479, not within the contemplation of the New York Legislature in enacting Section 74. This accusation, however, is not borne out by the undis-

puted facts made known to this Court. El Greco's counsel, attaching contemporaneous documents whose genuineness has not been questioned, has informed the Court that the shoe shows referred to by Shoe World ran from December 3-6 and December 4-7, respectively. May 8, 1985 Affidavit of J. Joseph Bainton at ¶ 3. In view of the fact that this action was not commenced until the 12th of December, and that the Footwear News article did not appear until December 19, Shoe World's accusation cannot be substantiated and cannot defeat this motion for summary judgment.

Finally, Shoe World cannot rely on the admissions it purports to have extracted from El Greco's officers. See Shoe World's Brief at 13-16. Although El Greco's President, Charles Cole, stated at his deposition that El Greco

intended, in filing the suit, to distance itelf from the shoes being offered by Shoe World, he explicitly denied that "the sole purpose of this lawsuit [was] to publicize it in 'Footwear News.'" Cole Dep. Tr. at 42. Moreover, the "admissions" of Mark Aarons, one of El Greco's lawyers, and Morton Cohen, El Greco's chief financial officer, run contrary to the showing that Shoe World is required to make. Aarons was asked:

> Did you consider possible damage to the reputation of Shoe World by characterizing them as dealing in the sale of counterfeit merchandise prior to filing suit?

He responded:

> That wasn't a characterization. They were selling counterfeit goods. Therefore, it required no analysis.

Aaron's Dep. at 40-41. Similarly, Cohen was asked:

> Did you ever consider the impact on the reputation of Shoe World of filing this suit and

> labeling them as a counterfeiter or as dealing in counterfeit goods?

He answered:

> I never considered that issue. The answer is no.

Cohen Dep. Tr. at 21. While these statements might perhaps be characterized as indicating carelessness or even recklessness on El Greco's part, they tend to negate, rather than support, the showing of knowing and purposeful bad faith that the Williams standard requires. Thus, they do not support Shoe World's argument that the application vel non of Williams v. Williams is "a genuine issue for trial." Fed.R.Civ.P. 56(e).

Shoe World's second line of argument, that the Footwear News article is not a "fair and true report" within the meaning of Section 74, is also unavailing. The New York Court of Appeals has advised that "[w]hen determining whether an arti-

cle constitutes a 'fair and true' report, the language used therein should not be dissected and analyzed with a lexicographer's precision." Holy Spirit Ass'n v. New York Times Co., 49 N.Y.2d 63, 68, 424 N.Y.S.2d 165, 167 (1979). There is no dispute that the article is a "substantially accurate" rendering of the allegations of El Greco's complaint. Holy Spirit, 49 N.Y.2d at 67, 424 N.Y.S.2d at 167. Shoe World argues, however, that in addition to providing Footwear News with a copy of the complaint in this action, Neil Cole, then Executive Vice-President of El Greco, "added further allegations not contained in the court papers...." Shoe World's Brief at 7. Bearing in mind the teaching of Holy Spirit, this Court finds that these further allegations "constitute[ ] background to the misconduct attributed to

[Shoe World] in the complaint, Ford v. Levinson, 90 A.D.2d 464, 454 N.Y.S.2d 846, 848 (1st Dep't 1982), and thus do not remove the article from the protection of Section 74.

Shoe World argues finally that even if the statements in the Footwear News article are deemed privileged under Section 74, its cause of action for defamation should be upheld insofar as it alleges other defamatory statements made by El Greco officers independently of that article. In making its argument, Shoe World relies on its use of the words "and otherwise" in ¶ 34 of its answer. Shoe World's Brief at 10. El Greco is correct in responding that this argument runs afoul of New York C.P.L.R. 3016(a) (McKinney's 1974), which requires:

> In an action for libel or slander, the particular words complained of shall be set forth in the complaint....

See, e.g., Catterson v. Caso, 472 F. Supp. 833, 840 (E.D.N.Y. 1979) ("C.P.L.R. 3016(a) requires the plaintiff in a libel and slander action to set forth the particular words complained of. Plaintiff having failed to do so, his defamation cause of action must be dismissed.").

Shoe World's counterclaim for defamation will be dismissed.

B. Trade Defamation and Disparagement

Shoe World's second counterclaim is based on the same facts as its first counterclaim, Shoe World's Answer at ¶ 46, adding only that the reputation of Shoe World's products has been damaged as well. Accordingly, both parties have treated these claims as succeeding or failing together. In view of the fact that N.Y. Civ. Rights L. § 74 applies equally to defamation and trade libel

suits, Bridge C.A.T. Scan, supra, 608 F. Supp. at 1193 n.15, and in view of my determination as to Shoe World's first counterclaim, Shoe World's second counterclaim must also be dismissed.

C. Tortious Interference

Shoe World's third counterclaim is pleaded under the heading, "Tortious Interference." Apparently believing this counterclaim to allege tortious interference with contractual relations, El Greco's original moving papers urged dismissal because of Shoe World's failure to specify the particular contract on which it based its claim. In response, Shoe World has explained that its action is one for tortious interference with business relations, a tort also known as "interference with either economic advantage, prospective advantage ... or pre-contractual relations." Martin

Ice Cream Co. v. Chipwich, Inc., 554 F. Supp. 933, 945 (S.D.N.Y. 1983). The elements of this tort are as follows:

> [T]he defendant's interference with business relations existing between the plaintiff and a third party, either with the sole purpose of harming the plaintiff or by means that are "dishonest, unfair or in any other way improper."

Id., quoting Robbins v. Ogden Corp., 490 F. Supp. 801, 811 (S.D.N.Y. 1980).

Even under this theory, however, Shoe World's complaint, considered along with the affidavits presented to the court in response to this motion for summary judgment, is insufficient. "[I]nterference with precontractual relations is actionable when a contract would have been entered into had it not been for the conduct of the defendant." Robbins, supra, 490 F. Supp. at 811. Shoe World's claim is deficient in failing to identify a particular contract or set of contrac-

tual negotiations that are the basis of this action. Moreover, it has failed to offer any facts which, if proved at trial, would show that this contract would have been entered into but for El Greco's interference. Because Shoe World has not set forth "specific facts showing that there is a genuine issue for trial," Fed.R.Civ.P. 56(e), its third counterclaim will also be dismissed.

D. Unfair Competition

In arguing that its counterclaim for unfair competition should be upheld, Shoe World cites Diehl & Sons, Inc. v. International Harvester Co., 445 F. Supp. 282 (E.D.N.Y. 1978). In Diehl, the court upheld, against a motion to dismiss, "a claim for unfair competition by disparagement, which has been described as a species of the tort of injurious falsehood." 445 F. Supp. at 291. The

court went on to explain that "[t]he gist of the tort ... is the interference with the prospect of sale or some other advantageous relation." Id., quoting W. Prosser, Torts § 128, at 919-20 (4th ed. 1971) (footnotes omitted). From this description, it appears that this claim is redundant to Shoe World's second and third counterclaims, cf. Fed.R.Civ.P. 12(f), and must be dismissed for the same reasons. Even if this claim is somehow independent, it is plain that it must be dismissed for its failure to allege special damages "with sufficient particularity." Diehl, 445 F. Supp. at 292. See p. 17 infra.

E. Prima Facie Tort

Shoe World's fifth counterclaim is an action for prima facie tort. Prima facie tort has four elements:

(1) intentional infliction of harm,
(2) causing special damages,
(3) without excuse or justification,

(4) by an act or series of acts that would otherwise be lawful.

Curiano v. Suozzi, 63 N.Y.2d 113, 117, 480 N.Y.S.2d 466, 469 (1984). In Curiano, the New York Court of Appeals found plaintiffs' complaint to be "insufficient to state a cause of action for prima facie tort insofar as it fails to plead special damages." Id. The same conclusion must be reached with regard to Shoe World's counterclaim. Shoe World's complaint alleges damages to its business, reputation and good will "in an amount not less than $42,000,000. Shoe World's Answer at ¶ 66. However, "[s]pecial damages must be alleged with sufficient particularity to identify actual losses." Lincoln First Bank of Rochester v. Siegel, 60 A.D.2d 270, 400 N.Y.S.2d 627, 633 (4th Dep't 1977). As one New York court has stated in dismissing a claim for prima facie tort,

"damages pleaded in such round sums without any attempt at itemization, must be deemed allegations of general damages." Leather Development Corp. v. Dun & Bradstreet, Inc., 15 A.D.2d 761, 224 N.Y.S.2d 513, 514 (1st Dep't) app. dismissed, 12 N.Y.2d 668, 233 N.Y.S.2d 461 (1962) aff'd, 12 N.Y.2d 909, 237 N.Y.S.2d 1007 (1963).

F. Abuse of Process

Shoe World's sixth and final counterclaim against El Greco alleges abuse of process. There are three elements to a claim of abuse of process:

> (1) regularly issued process, civil or criminal,
> (2) an intent to do harm without excuse or justification, and
> (3) use of the process in a perverted manner to obtain a collateral objective.

Curiano v. Suozzi, 63 N.Y.2d 113, 116, 480 N.Y.S.2d 466, 468 (1984). Shoe World alleges that El Greco wrongfully obtained

a temporary restraining order by misleading this Court into believing that Shoe World was counterfeiting El Greco's shoes. Because of the temporary restraining order, Shoe World argues, it was wrongfully compelled to discontinue its sale of CANDIE'S shoes and suffered harm to its good will and reputation.

Although Shoe World has alleged the first two elements, it has failed to allege "[t]he gist of the action for abuse of process" which is "the improper use of process after it is issued." Dean v. Kochendorfer, 237 N.Y. 384, 390 (1924). It is not enough that El Greco acted with malicious intent in seeking or obtaining a TRO: "[a] malicious motive alone ... does not give rise to a cause of action for abuse of process." Curiano, supra, 63 N.Y.2d at 117, 480 N.Y.S.2d at 468. Nor is it sufficient that the TRO, which,

while effective, forbade Shoe World from selling CANDIE'S shoes, was subsequently found to be unjustified. This was the very purpose for which the TRO was granted. Under New York law, an action for abuse of process lies only "[w]here process is manipulated to achieve some collateral advantage, whether it be denominated extortion, blackmail or retribution." Board of Education v. Farmingdale Classroom Teachers Ass'n, 38 N.Y.S.2d 397, 404, 380 N.Y.S.2d 635, 643 (1975). The remedy for damages from a TRO wrongfully obtained but properly implemented lies elsewhere. See N.Y. C.P.L.R. 6315 (McKinney's 1980); cf. Fed.R.Civ.P. 65(c).

Shoe World argues that it has attributed to El Greco the "collateral objective" of "wrongfully causing false, defamatory, and derogatory statements to be

made and to be published about Shoe World." Shoe World's Answer at ¶ 33. El Greco responds with some force that this argument is an impermissible attempt to assert a defamation claim otherwise found to be barred. Without reaching this question, it is clear that this allegation still does not set forth a cause of action for abuse of process. As one New York court has put it, "Embarrassment in business resulting to the parties being sued is not beyond the area of legitimate use of process ...." Reiner v. Kane, 25 Misc. 2d 477, 197 N.Y.S.2d 330, 334 (Sup. Ct. 1960). An action for abuse of process must include some element of extortion, an element lacking in Shoe World's complaint. Compare Cardy v. Maxwell, 9 Misc. 2d 329, 169 N.Y.S.2d 547, 549-50 (Sup. Ct. 1957) (claim for abuse of process upheld on

allegations that "defendants inserted in the complaint ... allegations regarding plaintiff which, if published, would expose him to public ridicule and contempt," that "defendants ... threatened plaintiff with adverse newspaper publicity unless he paid several million dollars to them to withhold further action by them," and that "defendants caused the ... allegations of the complaint to be given extensive and lurid publicity when plaintiff refused to comply with their demands").

Finally, it has been held that "to sustain [an action for abuse of process] plaintiff must allege ... actual or special damages." Board of Education, supra, 38 N.Y.2d at 405, 380 N.Y.S.2d at 644. As has already been explained, see p. 17 supra, Shoe World's allegations in this

regard are insufficient. Thus, this counterclaim must be dismissed as well.

Conclusion

For the reasons stated above, the Rule 11 motions of Shoe World and El Greco are denied; El Greco's motion for summary judgment is granted.

Dated: Brooklyn, New York
December 11th, 1985

SO ORDERED,

/S/ I. LEO GLASSER
United States District Judge

FOOTNOTES

(1) Shoe World's motion is also denied insofar as it relies on 15 U.S.C. § 1117 (1982).

Copies of the foregoing Memorandum and Order have been mailed this date to the following:

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

- - - - - - - - - - - - - - - -x

EL GRECO LEATHER PRODUCTS CO., INC. d/b/a CANDIE'S INTERNATIONAL,	:	83 Civ. 5376
Plaintiff,	:	
-against-	:	FINDINGS OF FACT AND CONCLUSIONS OF LAW
SHOE WORLD, INC., d/b/a GUSSINI,	:	
Defendant.	:	

- - - - - - - - - - - - - - - -x

GLASSER, United States District Judge:

Plaintiff El Greco Leather Products Co., Inc., d/b/a Candie's International ("El Greco") brings this action against defendant Shoe World, Inc., d/b/a Gussini ("Shoe World"), alleging trademark infringement in violation of the Lanham Act, 15 U.S.C. §§ 1114, 1125(a) and 1126(g), unfair competition, violation of New York Gen.Bus.L. §§ 368(b),(d) and § 279(n), and violation of the Genuine

Goods Exclusion Act, 19 U.S.C. § 1526.[1] Jurisdiction arises under 28 U.S.C. § 1331, 28 U.S.C. § 1338(a) and (b), and 15 U.S.C. §§ 1121 and 1125(a).

El Greco seeks a permanent injunction restraining defendants from using the mark "CANDIE'S" on any goods sold by defendant. El Greco also seeks compensatory damages in an amount yet to be determined, punitive damages in the amount of $10,500,000, destruction of the allegedly infringing goods and an order requiring defendant to place advertisements disclaiming any connection between the shoes sold by it and plaintiff.

In response, defendant has alleged counterclaims for defamation, trade defamation and disparagement, tortious interference, unfair competition, prima facie tort and abuse of civil process. Defendant seeks to enjoin plaintiff from

engaging in the above activities and demands compensatory damages of at least $42,000,000 and punitive damages in an amount to be determined.

Simultaneous with its commencement of this action, plaintiff made an application, by ex parte order to show cause, for a temporary restraining order and preliminary injunction on December 13, 1983. I originally denied plaintiff's application for a temporary restraining order due to plaintiff's failure to comply with the notice requirements of Fed.R.Civ.P. 65(b). On December 16, 1983, I reconsidered plaintiff's request for relief at a hearing where both parties were present. At that time, I granted the application for a restraining order on the basis of papers which alleged that defendant was selling counterfeit CANDIE'S shoes. See infra at

16-18. After a hearing on December 30, 1983, Judge Platt vacated the temporary restraining order conditioned on defendant's voluntary agreement not to sell the allegedly infringing shoes pending adjudication of the order to show cause for a preliminary injunction. At the conclusion of a hearing held on January 10, 1984 and January 19, 1984, I denied plaintiff's application for a preliminary injunction due to its failure to establish the existence of irreparable harm. Tr. 448-50.(2) Pursuant to Rule 65(a)(2) of the Federal Rules of Civil Procedure, the hearing of January 10 and 19 was treated as a trial on the merits.

On the basis of the hearing held on January 10 and 19, 1984, as well as on supplemental memoranda and proposed findings submitted thereafter by both parties, the following represent my findings

of fact and conclusions of law. For the reasons that follow, I find that plaintiff is not entitled to the relief it seeks.

I. FINDINGS OF FACT

A. The Parties and Their Industry

Plaintiff El Greco is a New York corporation which merchandises various types of shoes and wearing apparel in the United States. With regard to its marketing of shoes, plaintiff routinely engages foreign manufacturers to manufacture shoes under plaintiff's trademark. Plaintiff thereafter imports these shoes into the United States and sells them here.

At all times relevant to this action, plaintiff has been the owner of the duly registered federal and New York State trademarks "CANDIE'S." Plaintiff's federal trademark, Registration No.

1,157,373 applies to boots, shoes and slippers and has been registered with the United States Customs Service pursuant to 15 U.S.C. § 1124 and 19 U.S.C. § 1526. Plaintiff's mark is registered in New York State in connection with the sale of shoes and jeans.

Defendant Shoe World, a Maryland corporation, has 92 "Gussini" stores nationwide. Through these stores, defendant distributes women's shoes in the central and eastern United States at a set retail price, which for the year 1983 was $13.88. Approximately 80% of Shoe World's total sales volume is derived from shoes manufactured to its own specifications and sold under its own trademark. The remainder of Shoe World's sales volume is generated by the sale of other brands constantly offered throughout the trade. The sale of job-lot and

closeout merchandise represents approximately 20% of Shoe World's overall business. Plaintiff's employees, particularly Chris Crabill and Lynn Miller, as well as plaintiff's president, Charles Cole, knew at least as of June 1982 that Shoe World sells all of its women's shoes, including CANDIE'S shoes, at its set retail price of $13.88, and were familiar with Shoe World's marketing practice.

At issue in this action is defendant's importation and sale of certain Brazilian-made CANDIE'S women's shoes, namely, Style No. 4666 Dramatic, No. 4216 Loyalty, and No. 1431 Bravo. Plaintiff essentially merchandises such apparel in the following manner.

Plaintiff engages Brazilian manufacturers, among other foreign firms, to manufacture its women's shoes.

Sapatus Assessoria e Lancamentos Ltds., ("Sapatus"), a Brazilian firm, is plaintiff's exclusive representative for the production of shoes in Brazil. Acting on plaintiff's behalf and with plaintiff's approval, Sapatus selects the manufacturers with which orders will be placed; the production of any particular shoe style, if the volume is substantial, may be entrusted to more than one manufacturer.

Sapatus then places the orders with the manufacturers, supervises production at the factories; exercises careful control of the quality of the merchandise and assures that it accords in every respect with plaintiff's standards and specifications, inspects the shoes as they are produced and after lots are completed and tendered for delivery to plaintiff, certifies that the lots are in

compliance with plaintiff's standards and specifications, and then arranges for shipment of the completed lots to plaintiff. In the event that there have been quality problems at a given factory, Sapatus will permanently station its employees at that factory to inspect and review the shoes as they are manufactured, virtually on a pair-by-pair basis. Shoes that are found to have any noticeable defects, that are inferior in quality or otherwise not in compliance with plaintiff's standards and specifications are rejected, and the manufacturer is required to set them aside and not to include them in lots tendered to plaintiff. No shoes are approved or accepted unless and until a principal of Sapatus signs an Inspection Certificate certifying that the lot of shoes to which it relates fully complies with plain-

tiff's standards and specifications. As will be detailed further below, however, plaintiff has failed to demonstrate that any of the allegedly infringing shoes sold by defendant were defective.

Plaintiff's specifications for shoes manufactured in Brazil provide, among other things, that the CANDIE'S trademark shall be imprinted or stamped on the sock lining inserted into the shoe. The insertion of the sock lining is one of the final steps in the manufacturing process. Tr. 25. As to some shoes, the specifications have provided also for the insertion of a metallic tag bearing the mark at the base of the heel. It is unclear whether the metallic tag can be removed from shoes without destroying or effectively impairing them. Tr. 77-78, 156-57, 159-60.

In addition, there is no market in Brazil for women's shoes which had been produced for eventual sale in the United States; rather, the only realistic market for such shoes is the United States. Thus, any shoes made by a Brazilian manufacturer for plaintiff but not accepted by plaintiff could not be disposed of for retail sale in Brazil; realistically, they could be sold only in the United States. At the close of its seasonal sales, the plaintiff regularly sells CANDIE'S shoes as closeout merchandise to discount shoe chains such as Shoe World, Barett and Delton, which sell the shoes at prices substantially lower than full price. Like defendants, Barett and Delton also sell CANDIE'S shoes at the set retail price of $13.88. Tr. 170-72, 196-97; D. Exhs. K & J. Prior to the controversy which resulted in this law-

suit, defendant purchased CANDIE'S shoes from plaintiff in 1981, 1982 and 1983 in this manner.

Defendant Shoe World also acts through agents in order to conduct its retail shoe business. Defendant's agent for the purpose of purchasing shoes made in Brazil is Fulvio Alviani of Alviani Imports (both hereafter referred to as "Alviani"), who buys for his own company in addition to acting as defendant's agent. In all transactions relevant to this action, Alviani purchased shoes from a Brazilian agent, Intra Exportacoes Ltda. ("Intra").

B. The Instant Controversy

1. Style No. 4666 Dramatic

The Style No. 4666 shoes represent the greatest quantity of shoes in controversy.

On March 17, 1983, plaintiff placed an order with Solemio, Ltda. ("Solemio"), a Brazilian manufacturer, for the production of 25,200 pairs of Style No. 4666, at a cost to plaintiff of $7.10 a pair ex factory. The shoes were to be manufactured for and shipped to plaintiff no later than 15 days after May 30, 1983, ex-factory, in seven separate lots, 2505A - 2505G, of 3,600 pairs each. To effect payment, plaintiff opened a bank letter of credit in Solemio's favor for $178,920. This letter of credit, among other things, required, as conditions of payment, that Solemio submit (a) an Inspection Certificate, signed by an authorized representative of Sapatus, certifying that the lot to which it related had been approved for shipment in accordance with plaintiff's specifications and (b) a certifi-

cation by Solemio that it would not sell Style No. 4666 to any other companies in the United States.

Pursuant to its purchase orders for lots 2505 A-G, plaintiff authorized Solemio to make the shoes in issue to plaintiff's specifications for its shoe style 4666, including affixing the CANDIE'S trademark to the goods. Sapatus inspected and released the first five lots of CANDIE'S shoe style 4666, orders 2505 A-E, for delivery to plaintiff. Sapatus executed its Inspection Certificates with respect to those five lots; Solemio submitted its certification that it would not sell Style No. 4666 to any other companies in the United States; and the shoes were shipped to plaintiff and paid for. As part of plaintiff's fall 1983 line, the shoes were sold by plaintiff to its retail customers at

$15.75 per pair until the end of October, when, with the close of the fall season, it began to offer them to the trade on a closeout basis.

In the course of their inspections at the Solemio factory, however, Sapatus' representatives allegedly detected defects in the quality of many of the shoes; and, in May 1983, Alan Franklin, plaintiff's production development director, on a visit to the factory, also observed quality defects in numerous shoes. In his "Report on Quality and Factory Visits - Brazil May 16-20" to Sapatus, Franklin stated the following regarding Solemio's production of Style No. 4666:

> General quality of Dramatic pumps was poor. After we stopped conveyor and installed additional moulding m/c backs improved. Backseam nailing must be hammered after tack is removed. Binding of vamp seam and topliner must be lighter and tighter. Trimmings of

> linings must be cleaner and neater. Final upper dressing must be even and applied with more care.

Plaintiff's Exh. 8; Tr. 99. Although plaintiff urges that due to these defects, Sapatus and Franklin continually rejected large quantities of the shoes and instructed Solemio that plaintiff would not accept the shoes and that the shoes should be set aside and not disposed of without removing the CANDIE'S mark,[3] the Franklin report makes no mention of Sapatus or Franklin doing or directing Solemio to take any of the actions mentioned above.

At some time prior to July 12, 1983, Sapatus, at plaintiff's request, cancelled lots 2505 F and 2505 G, including approximately 7,200 pairs of Style No. 4666. Although plaintiff has vigorously contended that these shoes were rejected due to quality problems, see e.g.,

Tr. 50-51, 55, 62-63, 67-68, 95-96, I do not find this assertion to be credible. Sapatus' own confirmatory telex expressly stated the reason for cancellation to be "late delivery." Larry Noss, a partner in Sapatus, testified that lots F and G were rejected due to quality defects. However, plaintiff was unable to produce any evidence to corroborate this allegation. In addition, plaintiff's position is further undercut by Noss' own testimony that it was Sapatus' "normal procedure" to inform a factory, in writing, of the reasons why its goods were not accepted. Tr. 61-63. See also Tr. 68, 96-97 (although Noss testified that there might be some documentation in Brazil stating that the shoes were rejected due to quality defects, none was produced). Plaintiff's argument is also undermined by Noss' own testimony, after examining

one 4666 shoe manufactured by Solemio and one produced by the Wirth factory in Brazil, that it was the Wirth shoe which appeared to have an off-color binding. Tr. 75-79. Noss was thus unable to distinguish any difference between plaintiff's Style No. 4666 and the same style sold by defendant.

In addition, plaintiff's assertion that the cancelled Style No. 4666 shoes are not "genuine" because they were never completed must fail. This argument is not credible in the face of testimony by both Alan Franklin and John Wintersteen that the allegedly defective lots F and G were manufactured to completion even though plaintiff had rejected them. Tr. 152, 173-74.

Plaintiff's purchase order No. 2505, on which the cancellations of Lots F and G are noted in handwriting, does not

indicate any instruction to Solemio as to the disposition of the cancelled lots. Plaintiff's Exh. 1. The only document that could be construed to impose any restriction thereon is plaintiff's original letter of credit, which states: "Beneficiary must certify that style # 4666 described in this letter of credit will not be sold to any other companies in the United States." It is unclear from this language whether sale of the style or the shoe is intended to be restricted, and the purchase order does not specifically address the disposition of cancelled goods.

On June 27, 1983, defendant, through Alviani, purchased from Intra 2,844 pairs of Style No. 4666 shoes manufactured by Solemio which bore the CANDIE'S trademark and were packed in boxes marked CANDIE'S. The shoes were to be delivered to

defendant's Maryland warehouse by July 1, 1983. Also on June 27, defendant placed an additional order through Alviani from Intra for 3,258 pairs of Style No. 4666, to be delivered in the same fashion by September 28, 1983. Pursuant to these orders, 7,056 pairs of Style No. 4666 women's shoes bearing the CANDIE'S trademark were shipped to defendant and imported by it into the United States. The price paid by defendant for these shoes was $4.00 per pair, F.O.B. Brazil. Beginning in August 1983 and continuing into October 1983, these shoes were offered for sale and sold by defendant at its retail stores in the United States at a price of $13.88 per pair. Although plaintiff urges that "it is as probable as not that the [4666] shoes purchased by defendant from Solemio were shoes it manufactured in addition to those

manufactured pursuant to plaintiff's purchase order [and later cancelled],(4) I do not find this allegation to be credible. Plaintiff has offered no evidence to support this contention. It is more apparent from the evidence that the goods bought by defendant <u>are</u> the shoes from lots F and G cancelled by plaintiff. The number of pairs of shoes purchased by defendant correspond almost exactly with the number of pairs of Style No. 4666 cancelled, and as noted above, plaintiff has not submitted any evidence which could even imply that Solemio manufactured additional Style No. 4666 shoes beyond the original lots A-G ordered by plaintiff.

Finally, it is important to note that on or about October 27, 1983, the same day that Charles Cole, plaintiff's president, first telephoned Paul Gussin,

president of Shoe World, to complain about Shoe World's sale of CANDIE'S shoe style 4666, see infra at 16-18 , plaintiff, through its salesman, Chris Crabill, offered the same CANDIE'S shoe style 4666 to Shoe World as close-out merchandise. Tr. 278, 328, 331-32, 363-68; Defendant's Exh. BB. The offer by Chris Crabill to sell shoe style 4666 to Shoe World was made with the knowledge of Charles Cole. Tr. 327, 367. Cf. Tr. 328.

2. Style No. 4216 Loyalty

On March 2, 1983, plaintiff placed purchase order No. 2442 through Sapatus with Cal & Cidos Relim S. A. Ind. E. Com. ("Relim"), another Brazilian manufacturer, for 360 pairs of a style of women's shoes designated Style No. 4216 Loyalty, at a cost to plaintiff of $7.35 a pair ex-factory. The shoes were to be

manufactured for and shipped to plaintiff no later than 15 days after April 15, 1983, the ex-factory date. On April 1, 1983, plaintiff replaced that order with a larger order for the same style of shoes. In placing this order, plaintiff authorized Relim to label the Style No. 4216 shoes with the CANDIE'S trademark. On April 4, 1983, plaintiff cancelled its order for these shoes and placed a larger order with Relim at a lower ex-factory price. At the preliminary injunction hearing, plaintiff's Vice President of Operations, John Wintersteen, testified that he did not know why plaintiff had not accepted the 360 pairs of shoes originally ordered. Tr. 170. Plaintiff offered no proof that the original order of 360 pairs of Style No. 4216 was cancelled because of quality control problems.

On August 11, 1983, defendant, through Alviani, purchased through Intra 360 pairs of Style No. 4216 manufactured by Relim. The shoes bore the CANDIE'S trademark and were packaged in boxes so marked and were to be purchased at a price of $4.60 per pair F.O.B. Brazil, for delivery ex-factory by August 20, 1983, and to defendant's warehouse in Elkridge, Maryland by September 20, 1983. Pursuant to that order, 360 pairs of the Style No. 4216 shoes bearing the CANDIE'S trademark were shipped to defendant and were imported by it into the United States. Beginning in or about September 1983, these shoes were offered for sale and sold by defendant at its retail stores in the United States at a price of $13.88 per pair. Although plaintiff again suggests that the shoes purchased by defendant may have been manufactured

by Relim in addition to the shoes ordered by plaintiff, there is no credible evidence to support this contention. Again owing to the correspondence between the number of pairs of Style No. 4216 cancelled by plaintiff and bought by defendant, I find no reason to doubt that defendant purchased the shoes manufactured by Relim that had been cancelled by plaintiff.

3. Style No. 1431 Bravo

In 1982, plaintiff placed an order with Brochier S/A, another Brazilian manufacturer, for the manufacture of a quantity of women's shoes designated Style No. 1431 Bravo, to be shipped to plaintiff in early May 1982. Plaintiff's allegation that it cancelled a portion of this order due to quality control problems at Brochier which prevented the shoes from being ready for delivery until

October 1982 is not supported by the evidence. Rather, plaintiff cancelled a portion of the Style No. 1431 order because of late delivery and did accept the remaining 3,600 pairs. The shoes actually purchased were sized improperly and ran a size to a size and a half short. Plaintiff returned the shoes to Brochier, which amended the letter of credit to reflect an adjustment on the price of the shoes. Tr. 171. Plaintiff sold the mis-sized Style No. 1431 shoes to various discount outlets other than Shoe World, as closeout merchandise. See Tr. 196-200.

The Brochier invoice referring to the letter of credit by which plaintiff originally ordered the Style No. 1431 shoes certifies that that style "will not be sold to any other companies in the U.S.A." Plaintiff's Exh. 18. However,

plaintiff has not submitted any documentation regarding plaintiff's cancellation of any portion of the Brochier shoes, nor any written instructions from plaintiff to Brochier regarding the disposition of cancelled merchandise.

On December 8, 1982, defendant, through Alviani, purchased from Intra 3,110 pairs of Style No. 1431 women's shoes manufactured by Brochier and bearing the CANDIE'S trademark, at a price of $3.50 per pair F.O.B. Brazil, for delivery ex-factory by January 15, 1983, and to defendant's warehouse in Elkridge, Maryland by February 15, 1983. Pursuant to that order, 3,110 pairs of the Style No. 1431 women's shoes bearing the CANDIE'S trademark were shipped to defendant and imported by it into the United States. They were offered for sale and sold by defendant at its retail

stores in the United States at a price of $13.88 per pair. Again, although plaintiff suggests that the Style No. 1431 shoes cancelled by plaintiff and brought by defendant are not the same shoes, plaintiff has offered no proof that Brochier manufactured an additional 1,431 shoes beyond the original order by plaintiff or that defendant otherwise obtained any such shoes from Brochier.

4. Shoe Orders from the Martini and Noel Factories

On April 27, 1983, defendant, through Alviani and Intra, purchased from a Brazilian manufacturer identified as "Martini," 2,551 pairs of women's shoes bearing the CANDIE'S trademark and packaged in boxes also so marked, at a price of $5.00 per pair F.O.B. Brazil, for delivery to defendant's warehouse in Elkridge, Maryland by June 1, 1983. Defendant's Exh. U. Pursuant to this

order, these women's shoes, bearing the CANDIE'S trademark, were shipped to defendant and imported by it into the United States; and were offered for sale and sold by defendant at its retail stores in the United States at a price of $13.88 per pair. Similarly, on August 11, 1983, defendant, through Alviani and Intra, placed an order for the purchase from a Brazilian manufacturer identified as "Noel" of 1,800 pairs of shoes bearing the CANDIE'S trademark and packaged in boxes also so marked, at a price of $3.50 per pair F.O.B. Brazil, for delivery ex-factory by August 20, 1983, and to defendant's warehouse in Elkridge, Maryland by September 20, 1983. Defendant's Exh. V. Pursuant to this order, these women's shoes, bearing the CANDIE'S trademark, were shipped to defendant and imported by it into the United States;

and were offered for sale and sold by defendant at its retail stores in the United States at a price of $13.88 per pair.

The record does not diclose any details of the relationship between plaintiff and Martini or Noel, nor does it reveal any details regarding the manufacture of the shoes in controversy. Thus, plaintiff has not proven that the shoes puchased by defendant were not originally manufactured by Martini and Noel at plaintiff's direction. Tr. 80-81, 297-300, 317-20.

5. Commencement of this Action

As stated above, defendant Shoe World offered for sale Style Nos. 4666, 4126 and 1431 during 1983. In October 1983, after allegedly receiving complaints from certain retail customers that defendant was selling current CANDIE'S shoes at

prices significantly less than those at which the retailers were or could be selling the same, plaintiff's executive committee met during October 1983 to discuss these complaints. On October 27, 1983, plaintiff's president, Charles Cole, telephoned defendant's president, Paul Gussin, to object to defendant's sale of CANDIE'S Style No. 4666 only. On October 28, Gussin issued a recall on Style No. 4666 shoes to all Shoe World Regional Managers, District Managers and Store Managers. Defendant's Exh. L. Gussin and Cole engaged in two more telephone discussions during early November 1983, and during one or both of these conversations, Gussin informed Cole that the shoes came from Intra in Brazil. Tr. 136, 236.

On November 3, 1983, Gussin received a letter dated October 28, 1983 from

Richard Olicker, plaintiff's general counsel. Defendant's Exh. M. In that letter, Olicker asserted that in light of recent events and Gussin's alleged "admission" made in a recent telephone conversation with Charles Cole, defendant was engaging in knowing, willful and fraudulent infringement of the CANDIE'S trademark. In addition to stating the potential legal ramifications of the perceived problem, the Olicker letter demanded that plaintiff identify the supplier of the goods involved, as well as the quantity, price paid by defendant, defendant's distribution schedule and sales to date. When plaintiff did not receive a response to the Olicker letter, plaintiff filed this action, along with an order to show cause for a temporary restraining order and preliminary injunction, on December 13, 1983. The com-

plaint alleges that defendant sold shoes which "duplicate shoe styles of Plaintiff" and are "counterfeit." Complaint ¶ 11. That paragraph further states:

> Although identical in appearance, the counterfeit shoes were manufactured, packaged, imported and distributed without authorization from Plaintiff. The counterfeit shoes are not in any way associated with Plaintiff and Shoe World d/b/a Gussini acquired these shoes through no association or contact with Plaintiff, Plaintiff's agents, or Plaintiff's employees in either the United States or foreign jurisdictions.

In addition, the affidavit of Charles Cole submitted in support of plaintiff's application for injunctive relief stated:

> 9. The shoes being sold by Shoe World are recognizable by me as counterfeit goods for the following reasons:
>
> (a) Various shoes are of decidedly and readily apparent inferior quality as compared to the CANDIE'S shoes marketed by plaintiff under the trademark CANDIE'S.
>
> (b) The sole of at least one style of the counterfeit shoes is different from that of any

> shoe ever sold by plaintiff and is of a decidedly inferior quality.
>
> (c) The counterfeit shoes were sold to consumers at the retail price of $13.88. Similar CANDIE'S shoes sold by plaintiff to retailers would be sold at the wholesale price of $14.25. The usual retail price would be approximately $28.00.

Affidavit of Charles J. Cole, dated December 8, 1983 (emphasis in original).(5)

The complaint and request for immediate injunctive relief alleged that such relief was necessary due to potential harm to plaintiff's reputation and upcoming business ventures anticipated in the December 1983 Volume Retailer Shoe Show and National Shoe Show in New York City. Id. ¶ 14. The complaint and order to show caused (sic) made no mention of prior business dealings between the parties, the possiblity that Intra was the source of the allegedly infringing shoes,

or of defendant's October 28 recall of the Style No. 4666 shoes.

On December 20, 1983, a temporary restraining order was entered by this Court enjoining defendant from selling shoes bearing plaintiff's trademark CANDIE'S. On December 30, 1983, the temporary restraining order was vacated by Judge Platt on a showing that the allegedly infringing shoes had been originally made at plaintiff's request by one of its Brazilian manufacturers and were not "countefeit" within the usual meaning attached to that word.

On January 19, 1984, at the conclusion of the preliminary injunction hearing, plaintiff was denied relief based on its failure to demonstrate irreparable harm. Specifically, the record demonstrated that on October 28, 1983, the very same day on which plaintiff's president tele-

phoned defendant's president regarding defendant's sale of Style No. 4666 shoes, plaintiff's salesman had offered the same style shoe to defendant's representative. In addition, plaintiff's shoes had clearly been sold by other outlet shoe stores at the price of $13.88. Cf. Cole Affidavit, supra at 17, ¶ 9(c).

II. CONCLUSIONS OF LAW

It is settled law in this Circuit that in order to obtain a preliminary injunction, a party must make

> a showing of (a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief.

Jackson Dairy, Inc. v. H.P. Hood & Sons, Inc., 596 F.2d 70, 72 (2d Cir. 1979). In

determining whether a permanent injunction should issue, however, a court "must first determine if plaintiff has succeeded on the merits. If so, the Court must then decide whether the 'balance of equities' favor [sic] injunctive relief, and if so, what form it should take." Sierra Club v. Alexander, 484 F. Supp. 455, 471 (N.D.N.Y.), aff'd mem., 633 F.2d 206 (2d Cir. 1980). The equitable principles to be considered with regard to granting either permanent or preliminary injunctive relief are the same, Sierra Club v. Hennessy, 695 F.2d 643, 647 (2d Cir. 1982), and "the basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies." Weinberger v. Romero-Barcelo, 456 U.S. 305, 312 (1982) (citations omitted). In the instant case, I find that plaintiff

is not entitled to a permanent injunction because it has neither succeeded on the merits nor established a case meriting such equitable relief.

A. Federal Trademark Infringement

Plaintiff has alleged that defendant has infringed plaintiff's CANDIE'S trademark by its sale of the women's shoes discussed above. Plaintiff adheres to the position that these CANDIE'S shoes are "counterfeit" because even if the Brazilian factories could be found to have legitimately applied the mark to the shoes, plaintiff's cancellation of the various shoe orders impliedly revoked the manufacturer's authority to dispose of any of the shoes without removing the CANDIE'S mark. Plaintiff urges that its mark is infringed because it did not authorize the sale of its cancelled goods.(6) Tr. 419-22. I find from the

record, however, that the goods in controversy are "genuine" CANDIE'S shoes which may have been improperly disposed of by plaintiff's Brazilian manufacturers. Thus, my inquiry will examine whether plaintiff may maintain any claims for trademark infringement for the allegedly unauthorized sale of genuine goods.

Plaintiff bases its federal trademark infringement claims on § 32 of the Lanham Act, 15 U.S.C. § 1114 (infringement of service marks and trademarks), § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (false designation of origin of goods) and § 44(g) of the Lanham Act, 15 U.S.C. § 1126(g) (infringement of trade name).

Section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1), prohibits the use of a trademark (1) without consent, (2) in connection with the sale of goods, (3) in a manner that is likely to cause con-

fusion or to deceive the purchaser as to the source or origin of the goods. Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), prohibits the use in connection with any goods or services of a false designation of origin or any false description or representation. The "heart of a successful claim" under either statute is a showing of likelihood of confusion, that is, whether an appreciable number of purchasers is likely to be misled as to the source or sponsorship of defendant's products. Standard and Poor's Corp. v. Commodity Exchange, 683 F.2d 704, 708 (2d Cir. 1982); Mushroom Makers, Inc. v. R.G. Barry Corp., 580 F.2d 44, 47 (2d Cir. 1978), cert. denied 439 U.S. 1116 (1979); Franchised Stores of New York, Inc. v. Winter, 394 F.2d 664 (2d Cir. 1968); Tetley, Inc. v. Topps Chewing Gum, Inc., 556 F. Supp. 785

(E.D.N.Y. 1983); Bowmar Instrument Corp. v. Continental Microsystems, Inc., 497 F. Supp. 947 (S.D.N.Y. 1980).

Section 44(g) of the Lanham Act, 15 U.S.C. § 1126(g), appears inapplicable to this action, as its purpose is to extend protection to the trade or commercial names of any foreign national whose country of origin is party to any convention or treaty relating to trademarks, trade or commercial names or the repression of unfair competition and who meets the other requirements set forth in 15 U.S.C. § 1126(b).

Plaintiff El Greco is the owner of the trademark CANDIE'S and has the exclusive right to use that mark in United States commerce on shoes, boots and wearing apparel. The trademark CANDIE'S when used on women's shoes signifies in law and in fact that shoes so marked come

from plaintiff and that plaintiff sponsors such shoes, stands behind them and stakes its reputation on their character. A. Bourjois & Co. v. Katzel, 260 U.S. 689, 692 (1923). See also, e.g., Roger & Gallet v. Janmarie, Inc., 245 F.2d 505, 510-11 (C.C.P.A. 1957); E. Leitz, Inc. v. Watson, 152 F. Supp. 631, 635 (D.D.C. 1957), aff'd, 254 F.2d 777 (D.C. Cir. 1958).

The fact that plaintiff is not the manufacturer of the shoes does not deprive it of the right to be protected in the use of the trademark CANDIE'S. It uses the mark to designate shoes manufactured for it and which it approves and accepts in the exercise of its best judgment, as equal to a certain standard. The mark does not indicate by whom the shoes are manufactured; instead it denotes the origin of their selection and

classification. It is equivalent to a certification by plaintiff that the shoes so marked are genuine in that they have been determined by plaintiff to possess a certain degree of excellence. It may not in itself indicate quality, but it evidences that plaintiff's skill, knowledge and judgment has been exercised in ascertaining that the particular shoe so marked is possessed of a merit "rendered definite by [its] examination and of a uniformity rendered certain by [its] selection." Menendez v. Holt, 128 U.S. 514, 520 (1888).

Defendant does not dispute the significance of the CANDIE'S trademark or plaintiff's right to be protected in the use of that mark. Defendant, however, contends that its acts do not constitute trademark infringement.

Plaintiff urges that any shoes sold by a Brazilian manufacturer without the consent of plaintiff are not genuine CANDIE'S shoes and the sale of such shoes deceives the public into believing that plaintiff sponsored or approved the shoes in question and deprives plaintiff of control over its own reputation. Furthermore, plaintiff claims that the sale of goods by a manufacturer without the consent of the trademark owner constitutes trademark infringement and false designation of origin even where the trademark owner has previously authorized the manufacturer to sell similar goods bearing that trademark. Plaintiff relies on numerous authorities to support this position, including Burger King Corp. v. Mason, 710 F.2d 1480, 1941-93 (11th Cir. 1983), cert. denied, 104 S.Ct. 1599 (1984); Professional Golfers Ass'n v.

Bankers Life & Cas. Co., 514 F.2d 665 (5th Cir. 1975) ("PGA"); American Express Company v. Your Travel Agency, Inc., 214 U.S.P.Q. 341 (E.D.N.Y. 1981) ("Amex"); Bowmar Instrument Corp. v. Continental Microsystems, Inc., 497 F. Supp. 947 (S.D.N.Y. 1980) and Burberrys (Wholesale) Limited v. After Six, Inc., 122 Misc.2d 561, 471 N.Y.S.2d 235 (Sup. Ct. N.Y. Co. 1984). Plaintiff's reliance on these cases is, however, misplaced.

In Burger King, PGA, and Amex, for example, the courts were faced with situations in which a plaintiff trademark holder terminated a license to use that mark which had been granted to the defendant. The Burger King court stated:

> It is well established that 'falsely suggesting affiliation with the trademark owner in a manner likely to cause confusion as to source or sponsorship constitutes infringement.'. . . Thus, a trademark infringement case need not just involve imitation of the regis-

> trant's mark. The unauthorized use of a trademark which has the effect of misleading the public to believe that the user is sponsored or approved by the registrant can constitute infringement.

710 F.2d at 1492 (citing PGA, supra, 514 F.2d at 670) (emphasis in original). In Bowmar, the defendants violated a license agreement and admittedly used plaintiff's trademark without consent when they sold products other than those licensed by plaintiff with the Bowmar name imprinted thereon. As defendant correctly urges, these cases are inapposite, as this case does not involve termination of or violation of a license agreement. Rather, the CANDIE'S mark was affixed to the shoes in question by plaintiff's foreign manufacturers and under the apparent supervision of plaintiff's agent Sapatus.

Although the facts in Burberrys, supra, are more similar to those of this

case, they also provide no support for plaintiff's arguments. Burberrys was a state trademark infringement case in which plaintiff sought an injunction pendente lite to prevent defendants from manufacturing and selling approximately 8,000 raincoats. Plaintiff and defendant Abraham Zion Corp. had a licensing agreement pursuant to which Zion was to manufacture 30,000 trademarked "Burberry" raincoats. Plaintiff supplied to Zion "its distinctive material, all patterns, styles, dates, labels, tags and documents necessary for the making of the raincoats." 471 N.Y.S.2d at 236. After 22,000 coats had been manufactured and shipped to plaintiff's retailers pursuant to the contract, a dispute arose between the parties and no further "cutting orders" were given to defendant. Plaintiff advised defendant not to manufacture

or sell the remaining coats and also cancelled the license. In support of its application for injunctive relief, plaintiff urged that Zion intended to manufacture and sell the remaining coats and may have already attempted to do so. In issuing the injunction, the court found that defendant's continued use of plaintiff's trademark after expiration of its license for such use constituted infringement, and cited, among others, the Burger King and PGA cases discussed supra.

Like the instant case, Burberrys involved the potential improper disposition of trademarked goods by a manufacturer. However, unlike this case, the manufacturer in Burberrys clearly lacked the authority to apply plaintiff's mark to its goods or even to manufacture the remaining 8,000 coats. In contrast, the

rejected lots of Style No. 4666 CANDIE'S shoes here were completed and labelled with the CANDIE'S mark with plaintiff's permission. When the goods were cancelled, Solemio was not specifically instructed as to how it should dispose of the completed cancelled goods. As to the other allegedly infringing shoes, plaintiff has not offered any evidence to support its position that its mark was applied without consent. In addition, the defendant in Burberrys was the manufacturer of the goods; here, the manufacturers are not even parties to this action. Although it is true that even a retailer, such as Shoe World, who had no part in the manufacture of the goods or in the application of the mark to the goods can be an infringer, see, e.g., Bowmar Instrument Corp. v. Continental Microsystems, Inc., supra, 497 F. Supp.

at 957, the goods here cannot be deemed infringing for the reasons further set out below.

The issue remains as to whether genuine goods can be infringing. I find defendant's contention that this cannot be so to be persuasive. Helpful to an analysis of this issue are Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983); DEP Corp. v. Interstate Cigar Co., 622 F.2d 621 (2d Cir. 1980); and Diamond Supply Co. v. Prudential Paper Products Co., 589 F. Supp. 470 (S.D.N.Y. 1984).

In DEP, Unilever Export Ltd., a British corporation, was the holder of worldwide distribution rights for Pears Soap, whose trademark was owned by another British corporation, A. & F. Pears Ltd. Plaintiff DEP obtained from Unilever exclusive rights to distribute

Pears in the United States and Puerto Rico. After entering into this agreement, DEP learned that defendant Interstate was selling Pears within the United States.

DEP then filed suit and sought a preliminary injunction preventing Interstate from allegedly infringing the Pears trademark. The district court dismissed the complaint based on its finding that DEP lacked standing to sue Interstate for trademark infringement because DEP was not the owner of the trademark. The appellate court affirmed dismissal of the infringement claim due to lack of standing, but remanded for consideration of whether DEP might have had a cause of action for intentional interference with contractual relations. In a footnote the Second Circuit expressed in dictum the view that an

infringement action would not lie when genuine goods were in issue:

> It does appear anomalous in any event that a trademark infringement action would lie here where the soap sold by Interstate is in fact genuine and not spurious. It is conceded that there is no difference between the product sold by DEP and that sold by Interstate. There is no reproduction, counterfeit, copy, or colorable imitation of the Pears mark and hence no public confusion as to the source of goods.

622 F.2d at 622 n.1 (emphasis added). In the instant case, plaintiff has similarly failed to establish any basis for confusion as to the source of the cancelled goods.

In Monte Carlo Shirt, Inc. v. Daewoo International (America) Corporation, 707 F.2d 1054 (9th Cir. 1983), the Ninth Circuit relied on the Second Circuit's dictum in the DEP case and held that a cause of action for trademark

infringement under California law does not lie for the unauthorized sale of genuine goods. In that case, Monte Carlo Shirt, Inc. contracted with Daewoo Industrial Company, Ltd. in South Korea to manufacture men's shirts to its specifications. The shirts bore Monte Carlo's label and packaging. When the shirts arrived in the United States, they were rejected by Monte Carlo for late delivery, which is the same ground upon which plaintiff allegedly rejected the shoes here in issue. Daewoo's United States subsidiary subsequently purchased the shirts and began to sell them with the Monte Carlo labels and packaging intact to discount retailers without Monte Carlo's permission. When Monte Carlo sought to recover damages from Daewoo on the basis of common law trademark infringement, the Court of Appeals

affirmed the District Court's dismissal of the trademark claim, stating:

> The goods sold by Daewoo were not imitations of Monte Carlo shirts; they were the genuine product, planned and sponsored by Monte Carlo and produced for it on contract for future sale. The shirts were not altered or changed from the date of their manufacture to the date of their sale, their source was Monte Carlo; the absence of Monte Carlo's authorization of the discount retailers to sell does not alter this.

707 F.2d at 1058. As in Daewoo, the CANDIE'S shoes at issue here were originally "planned and sponsored" by El Greco, and the evidence proferred supports the conclusion that they were cancelled by reasons of late delivery only. Although the Daewoo case interpreted California common law trademark infringement, the case is persuasive that the absence of a trademark holder's authorization to its manufacturer to sell

genuine goods cannot constitute trademark infringement under the Lanham Act.

Similar issues were also addressed recently in the case of Diamond Supply Co. v. Prudential Paper Products Co., 589 F. Supp. 470 (S.D.N.Y. 1984). There, plaintiff was a wholesale distributor of stationery supplies which sold certain of its goods under the private label "Garden State." Defendant Prudential was a manufacturer of paper goods which sold to wholesalers such as plaintiff and carried out a small amount of retail business as well. At the time suit was brought, the parties had been doing business together for 25 years. In controversy were plaintiff's private label wire-bound spiral notebooks which Prudential manufactured. Pursuant to a contract between the parties, plaintiff was obligated to

purchase surplus private label goods at the end of the year.

In late 1979, Prudential was unable to supply plaintiff with the amount of private label goods it required and plaintiff placed some of its orders with Roaring Springs, Inc., another private brand manufacturer. In the meantime, the relationship between the parties deteriorated. Prudential had offered plaintiff substitute goods which were identical to plaintiff's branded notebooks except for the cover. Plaintiff declined the offer, saying that the goods were unacceptable, and in early 1980, plaintiff's president informed Prudential's president that "he did not care what Prudential did with the Diamond goods still in Prudential's inventory[.]" 589 F. Supp. at 474. Thereafter Prudential discarded any unattached notebook covers still in its

possession and either sold or donated to charity a large portion of the volume of completed private labelled notebooks. When plaintiff became aware that defendant Midtown Paper and Supply Company was selling the notebooks, plaintiff filed suit against defendants alleging federal trademark infringement under § 43(a) of the Lanham Act, as well as dilution and unfair competition.

After granting plaintiff's motion for a preliminary injunction and conducting a subsequent bench trial, Judge Duffy dismissed the complaint for failure of proof. Quoting the above cited portion of Daewoo, the court stated:

> The essence of the section 1125(a) claim is whether there is any likelihood that the public will be misled or confused . . . . In the instant case, however, there is no possibility of confusion because the goods sold are not distinct but deceptively similar goods; rather, they are genuine Diamond goods.

589 F. Supp. at 470 (citation omitted). The Court found that even though there were "minor stylistic differences" between the goods produced by Prudential and Roaring Springs, "the goods were either identical or qualitatively equivalent." Id. (footnote omitted).(7) The Court also took note of the fact that Prudential's sale of the notebooks was part of the normal course of its business and had plaintiff sued Prudential for breach of contract, Prudential's sale of the goods might have been required for purposes of mitigation of damages. Id. at 476 & n.12. Noticeably absent in this case is any claim against plaintiff's Brazilian manufacturers, whom plaintiff clearly urges are at fault. One may wonder whether plaintiff simply found it more convenient to sue defendant here on the untenable trademark claim rather than

pursue the more difficult course of suing foreign manufacturers.

It is true that the plaintiff in Diamond Supply expressly authorized Prudential to do whatever it wanted with the undelivered but private labelled goods, and that there is no equivalent express authorization here. This factor, however, does not alter the determination that the unauthorized sale of genuine goods cannot give rise to the likelihood of confusion necessary to maintain a federal trademark infringement action.

B. Unfair Competition

As stated by the Second Circuit in American Footwear Corp. v. General Footwear Co., 609 F.2d 655 (2d Cir. 1979), cert. denied, 445 U.S. 951 (1980):

> Although at one time the law of unfair competition was limited to claims that one party had attempted to pass off his goods as those of another party, unfair competition is now held to encompass a broader range of

> unfair practices which may be generally described as a misappropriation of the skill, expenditures, and labor of another. . . . "[O]ne cannot sell his product by misappropriating the good will of another through misleading the public into thinking it is 'sponsored' by or derived from something else."

609 F.2d at 662 (citations omitted). In an action for unfair competition based on "palming off," however, proof of likelihood of confusion is essential in order for a plaintiff to prevail. Sally Gee,Inc. v. Myra Hogan,Inc., 699 F.2d 621, 624 (2d Cir. 1983). See also Allied Maintenance Corp. v. Allied Mechanical Trades, Inc., 42 N.Y.2d 544, 369 N.E.2d 1162, 399 N.Y.S.2d 628, 631 n.2 (1977) ("courts have begun to recognize that . . an action for unfair competition turns not upon the acquisition of secondary meaning, but upon whether the acts of the

defendant can be characterized as unfair").

It is clear from the complaint that plaintiff's unfair competition claim is based upon Shoe World's alleged attempt to pass its goods off as goods manufactured by El Greco. As paragraph 26 of the complaint states:

> Defendant's use of CANDIE'S in connection with footwear has traded upon and appropriated to Defendant the reputation and valuable good will of Plaintiff and has created and continues to create confusion and mistake on the part of the purchasing public as to the source of Defendant's goods. In general, Defendant's acts have led and continue to lead the public mistakenly to the belief that defendant's products are in some way sponsored by or associated with Plaintiff and create the impression that Defendant's products are distributed under Plaintiff's aegis and authority. Defendant's activities constitute unfair competition and an infringement of Plaintiff's common law trademark rights.

(emphasis added)[8]. Having found no likelihood of confusion due to the genuine nature of the CANDIE'S shoes here in issue, and therefore no attempt by Shoe World to pass its goods off as goods manufactured by El Greco, plaintiff's common law unfair competition claim must fail.

C. Dilution

New York's "antidilution" statute, N.Y. Gen. Bus. L. § 368-d, provides:

> Likelihood of injury to business reputation or of dilution of the distinctive quality of a mark or trade name shall be a ground for injunctive relief in cases of infringement of a mark registered or not registered or in cases of unfair competition, notwithstanding the absence of competition between the parties or the absence of confusion as to the source of goods or services.

In contrast to trademark infringement, the antidilution statute is aimed at deterring "injury to a recognized trade

name, rather than damage arising from confusion among customers[.]" Sally Gee, Inc. v. Myra Hogan, Inc., supra, 699 F.2d at 624 n.5. See also Allied Maintenance Corp. v. Allied Mechanical Trades, Inc., 42 N.Y.2d 538, 544, 369 N.E.2d 1162, 399 N.Y.S.2d 628 (1977) (statute enacted to deter "cancer-like growth of dissimilar products or services which feeds upon the business reputation of an established distinctive trade-mark or name").

A cause of action is established under the antidilution statute by a showing of a truly distinctive trademark and likelihood of dilution. Sally Gee, Inc. v. Myra Hogan, Inc., supra, 699 F.2d at 625; Toys "R" Us, Inc. v. Canarsie Kiddie Shop, Inc., 559 F. Supp. 1189 (E.D.N.Y. 1983). In Sally Gee, the leading case in this Circuit interpreting § 368-d, the court noted that the concept of dilution

is "nebulous" and is usually characterized as a "'whittling down' of the identity or reputation of a tradename or mark," 699 F.2d at 625 (citations omitted). While the CANDIE'S mark may be distinctive, plaintiff has offered no proof of dilution of the CANDIE'S mark due to any acts of defendant. Thus, plaintiff's claim under the New York antidilution statute must fail.

D. Trademark Infringement under New York Law

In order to obtain relief from trademark infringement under N.Y.Gen. Bus.L. § 368-b, a plaintiff must prove that the defendant's use of the allegedly infringing mark is likely to cause confusion or mistake or to deceive the public. Allied Maintenance Corp. v. Allied Mechanical Trades, supra, 399 N.Y.S.2d at 631. As discussed above, plaintiff has not established that defen-

dant's importation and sale of the genuine CANDIE'S shoes is likely to cause confusion, mistake or deception as to the source of the goods. Therefore, plaintiff cannot state a claim under § 368-b.

E. New York General Business Law § 279-n

Since the commencement of this action, this statute has been repealed and replaced by identical provisions in N.Y. Arts & Cultural Affairs L. § 33.09. See N.Y.Gen.Bus.L. § 279(n), repealed, L. 1983, c. 876, § 5, eff. Dec. 31, 1983 (McKinney Supp. 1983). This statute, which was originally derived from the New York Penal Law, provides that a person who commits any of various "offenses against trade-marks" enumerated therein is guilty of a misdemeanor.

Although this statute provides for a criminal penalty, its predecessor has been construed to permit application for

injunctive relief from allegedly criminal conduct directed toward plaintiff's property rights, trademark and good will. Lanvin Parfums, Inc. v. Le Dans,Ltd., 9 N.Y.2d 516, 174 N.E.2d 920, 215 N.Y.S.2d 257, 261, cert. denied, 368 U.S. 834 (1961), (construing former N.Y. Penal L. § 2354(6), which is identical to N.Y. Arts & Cult. Affs. L. § 33.09(6)). However, an injunction may not issue based on this statute in the absence of evidence of fraudulent intent to deceive on the part of the defendant. Girl Scouts of the United States of America v. Personality Posters Mfg. Co., 304 F. Supp. 1228, 1234 (S.D.N.Y. 1969). Because plaintiff has not established this element of § 279-n, the statute cannot serve as a basis for injunctive relief.

F. Violation of the Customs Statute

In addition to its federal trademark infringement claim, the cause of action most vigorously argued by plaintiff is its charge that defendant has violated the so-called Genuine Goods Exclusion Act, § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526. The relevant portions of that statute provide:

> (a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.
>
> * * * *
>
> (c) Any person dealing in any such merchandise may be enjoined from dealing therein

> within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark, under the provisions of sections 81 to 109 of Title 15.

The statute also provides for seizure, forfeiture, destruction and other forms of disposition of the violating goods. 19 U.S.C. § 1526(b) and (e).

Defendant contends that § 1526 is inapplicable to the instant case, or alternatively, that the CANDIE'S shoes are excluded from the coverage of § 1526 pursuant to 19 C.F.R. §133.21(c)(3). That provision exempts from the restrictions placed on importation of articles bearing recorded trademarks or trade names "articles of foreign manufacture bear[ing] a recorded trademark or trade name applied under authorization of the U.S. owner." As detailed below, I find

both of defendant's arguments to be persuasive.

1. Applicability of § 1526

The availability of injunctive relief under § 1526 has in recent years been a significant point of controversy in the so-called "grey goods" cases. Of particular relevance to this case are Bell & Howell:Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063 (E.D.N.Y. 1982), vacated and remanded, 719 F.2d 42 (2d Cir. 1983) ("Bell & Howell"); Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984) ("Osawa") and Vivitar Corp. v. United States, 593 F. Supp. 420 (Ct. Int'l Trade 1984) ("Vivitar"). A "grey market" exists when a party other than the owner of a United States trademark seeks to import into this country identically marked goods which were lawfully marked by a foreign owner of the

same mark. Osawa, supra, 589 F. Supp. at 1164. For example, the United States trademark rights to a particular foreign made product are owned by A, a U.S. corporation, and the non-U.S. trademark rights are held by B, a foreign corporation. Although both A's and B's goods are lawfully trademarked, A may seek to exclude from importation or enjoin the sale of B's goods in the United States, i.e., the area beyond B's trademark rights. B's products are referred to as "grey goods," a name apparently designed to contrast with "black" market, or clearly illegal goods. While grey goods may be lawfully manufactured and marked for distribution within a defined territory, the legality of their sale outside that territory, i.e., in the United States, has been questioned.

Section 1526 was originally enacted in response to the decision of the Second Circuit Court of Appeals in A. Bourjois & Co. v. Katzel, 275 F. 539 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923). In that case, a French concern doing business both in France and in the United States sold its U.S. business, along with its good will and trademarks, to the plaintiff. The trademarks included the names "Java" and "Bourjois" for use on cosmetic face powder manufactured in France. The defendant purchased the same genuine powder in France and imported it into the United States in boxes and with marks closely resembling those of plaintiff.

Based on a theory of trademark infringement, the district court in Katzel found that plaintiff was entitled to a preliminary injunction preventing

defendant's sale of the French powder in the United States. The Second Circuit vacated the injunction, determining that an infringement action could not lie where the powder sold by defendant was genuine. While Katzel was pending in the Supreme Court, Congress enacted § 1526 in response to the Second Circuit's decision, thus forming a basis for reinstating plaintiff's injunction. The Supreme Court reversed the Second Circuit's decision, however, based on a determination that defendant's acts violated certain provisions of the trademark statute. The Court rejected defendant's argument that an action for infringement would not lie, stating:

> It is said that the trade mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade mark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding,

> that the goods come from the plaintiff although not made by it. It was sold and could only be sold with the good will of the business that plaintiff bought. . . . It stakes the reputation of the plaintiff upon the character of the goods.

260 U.S. at 692.

As will be further discussed below, the Katzel case can easily be distinguished from the case at bar. In Katzel, the goods imported by defendant were marked and sold by the foreign manufacturer and trademark holder. Admission of the goods into the United States, therefore, constituted importation of goods whose marks were not authorized by plaintiff, the U.S. mark owner. In the instant case, the evidence supports the conclusion that the application of the CANDIE'S mark was permitted by El Greco, the U.S. markholder. In fact, there has been no mention in this case of any

CANDIE'S mark owner, foreign or domestic, other than El Greco. In addition, the plaintiff in Katzel "was apparently unconnected with the foreign manufacturer and originator of the trademark, beyond having been the manufacturer's exclusive American distributor and having acquired from it the American trademark rights." Bell & Howell, supra, 548 F. Supp. at 1066 (construing defendants' argument). In contrast, plaintiff here was intimately connected with the Brazilian foreign manufacturers, and plaintiff, rather than the Brazilian companies, is responsible for controlling the use of the CANDIE'S trademark.

In the Bell & Howell case, the district court was faced with deciding the issue of whether an American trademark owner could enjoin the "unauthorized competitive sale within the United States

of the same identically trademarked goods, which were made and placed in the stream of international commerce by the foreign manufacturer, who did not intend that such goods be sold here." 548 F. Supp. at 1964-65 (emphasis added). Although set out in greater detail in the district court's decision, id. at 1065, 1067, a brief note about the corporate relationship of the parties in Bell & Howell is necessary. The goods in controversy in that case were certain types of photographic equipment manufactured in Japan by the Mamiya Camera Co. ("Mamiya"). A Japanese trading company, referred to by the court as Osawa Japan, held the exclusive right to distribute the equipment in all countries except Japan, where Mamiya held those rights. Plaintiff was the registered owner of three versions of the MAMIYA trademark in

the United States, and purchased its goods from Osawa Japan.

Defendant Masel Supply Co. and another company (referred to collectively as "defendants") were American companies which sell photographic equipment at discount prices. Defendants imported into the United States and sold non-counterfeit MAMIYA equipment which was purchased from some source other than plaintiff. The goods were indisputably manufactured by Mamiya and distributed by Osawa Japan. Plaintiff neither consented to nor authorized defendants' importation or sale of the goods. The evidence demonstrated that the goods imported and sold by defendants, although identical to those sold by plaintiff, differed substantially from plaintiff's goods in that the former lacked warranties and English language instruction booklets, and were

not packaged in the same manner or advertised to the same extent as were plaintiff's goods. 548 F. Supp. at 1069.

In considering plaintiff's application for injunctive relief, the district court in Bell & Howell emphasized the trademark concept of "goodwill," id., and determined that although plaintiff's and defendants' goods were identical and genuine, the goodwill identified with their goods differed. Id. at 1079.(9) Finding that there would be a substantial likelihood of confusion caused by defendant's use of the MAMIYA mark on the photographic equipment in question, the court issued a preliminary injunction.

On appeal, the Second Circuit vacated the injunction, finding an absence of evidence to support the trial court's conclusion that there existed a substan-

tial likelihood of confusion. 719 F.2d at 46. The court stated:

> Whether irreparable injury exists is a determination to be made in the first instance by the district court. On the basis of the present record, irreparable injury may well not be present herein since there would appear to be little confusion, if any, as to the origin of the goods and no significant likelihood of damage to [plaintiff's] reputation since thus far it has not been shown that Masel's goods, are inferior to those sold by [plaintiff] and are injuring [plaintiff's] reputation.

Id. (emphasis added). The appellate court did not address or review the district court's discussion of § 1526.

Although the plaintiff here urges that the district court's opinion in Bell v. Howell supports a broad application of § 1526 and supports plaintiff's position in the instant case, see, e.g., plaintiff's post-trial memorandum at 49 & nn. 25-26, I am not so persuaded for several

reasons. First, the circuit court vacated and remanded Bell & Howell. Second, the district court more clearly granted the injunction based upon trademark law, 548 F. Supp. at 1079, rather than interpreting § 1526 in a way that would be applicable to the case at bar.

In addition, the corporate structure of plaintiff and the nature of its relationship to the foreign corporations involved were also relevant to the Bell & Howell court's decision, which was concerned with the antitrust and customs implications arising where an "international enterprise" is concerned. See, e.g., id. at 1077-79. Section 133.21(c) of the regulatory exemption from § 1526, which is relevant here, was not implicated at all in Bell & Howell. Exemptions dealing with the corporate relationship between the plaintiff and the

foreign corporations, however, were of concern to the court. See 19 C.F.R. § 133.21(c)(1) and (2); 548 F. Supp. at 1078-79. Finally, the trademarks of the goods at issue in Bell & Howell were owned by separate entities -- the plaintiff and the foreign trademark owners -- the latter of which in some way distributed the goods to the defendants in that case. Each mark holder had separate access to Osawa Japan, the holder of worldwide (except Japan) distribution rights. Each mark owner would thus be able to obtain genuine MAMIYA goods via a different channel. In contrast here, El Greco is the sole holder of the CANDIE'S mark, and was therefore the only possible source of origin of genuine CANDIE'S shoes here in issue. In fact, the circuit court's determination in Bell & Howell that irreparable injury

might well not have been present due to the apparent lack of confusion as to the origin of the goods, supra at 39, is applicable here, as the goods sold by Shoe World originated with El Greco.

Plaintiff also contends that the Osawa case, decided after the hearing in this case, supports its request for injunctive relief. The plaintiff there was the same party that had been the plaintiff in Bell & Howell, and it sought a preliminary injunction preventing defendants, who were also discount camera dealers, from advertising and dealing in goods with the MAMIYA mark.(10) Judge Leval issued the injunction based on a determination that an infringement action could lie for the unauthorized sale of genuine goods marked abroad. 589 F. Supp. at 1170-71. Distinguishing the circuit court's decision in Bell & Howell, the Osawa court found

an "abundance" of evidence demonstrating irreparable harm to the plaintiff. Id. at 1168. The plaintiff met its burden of proof by establishing that defendants' acts had resulted in a drastic decline in plaintiff s sales -- which in turn caused plaintiff to lay off a large number of personnel, delays in warranty service,[11] slashing of plaintiff's advertising budget and problems with plaintiff's authorized dealers. Id. As in Bell & Howell, the goods in Osawa were lawfully marked abroad by the foreign owner of the MAMIYA mark, which, as set out above, differs significantly from the situation in this case. In addition, the plaintiff here has not demonstrated any of the harm which plaintiff in Osawa established.

The Osawa court's discussion of § 1526 is also not helpful to this plaintiff.

Unlike the plaintiff here, plaintiff Osawa had sought and was granted by the U.S. Customs Service an order of exclusion barring the defendants' allegedly unauthorized importation of MAMIYA goods. 589 F. Supp. at 1165. Thus, although it found that an injunction should also issue under § 1526, that determination was not necessary to the court's decision. Rather, the more narrow question before the court was whether Customs violated its own regulations in granting plaintiff the exclusion order. Id. at 1177. In addition, like the Bell & Howell court, the Osawa court was concerned with the corporate relationship between the plaintiff and the foreign mark holder, a matter not relevant to this case.

The recent case of Vivitar Corp. v. United States, supra, presents in exhaus-

tive detail the legislative and practical history of § 1526 and persuasively supports Shoe World's argument that the statute is inapplicable to this case. In Vivitar, the plaintiff owned the United States rights to the VIVITAR trademark and licensed foreign manufacturers to apply that mark to various types of photographic equipment. Plaintiff's wholly-owned subsidiaries marketed such goods outside the United States, but were not licensed to do so within this country. It was undisputed that third parties unrelated to plaintiff were importing into the United States trademarked goods made by plaintiff's foreign manufacturers without plaintiff's consent.

Plaintiff Vivitar brought a declaratory judgment action seeking a declaration that pursuant to § 1526, Customs

must bar from importation goods with plaintiff's trademark that are brought to the United States without plaintiff's consent. The court necessarily dealt with customs regulation § 133.21(c)(3), at issue here, in determining that plaintiff was not entitled to relief. Finding that the literal language of § 1526 would support plaintiff's request to bar grey goods, the Vivitar court nevertheless determined that "long-standing administrative practice and Congressional ratification" mandated that the scope of § 1526 be construed more narrowly. 593 F. Supp. at 425. Judge Restani determined that the enactment and history of § 1526 require the statute to apply only to the "evil it was designed to remedy," namely, the situation created by the Second Circuit's decision in Bourjois v. Katzel, supra. 593 F. Supp

at 434, citing Church of the Holy Trinity v. United States, 143 U.S. 457, 463 (1892). Judge Restani stated:

> [T]he sponsors of § 1526(a) repeatedly stated that the purpose of the section was only to reverse the Katzel decision. As shown by the legislative history, Congress adopted § 1526(a) to protect an American trademark owner, like the one in Katzel, who had purchased the trademark of an independent foreign company. Congress decided it was unfair to permit unauthorized imports of goods bearing the foreign company's trademark. These imports violated the rights the American trademark owner purchased from the foreign company in an arms-length transaction. This is the problem Congress was confronted with by the Katzel decision, and the sole purpose of § 1526(a) was to resolve this problem.

593 F. Supp. at 434 (emphasis added).

The Vivitar court's thorough analysis of § 1526 and that statute's history make clear that the statute is inapplicable to this case, where the plaintiff did not obtain trademark rights from a foreign

mark owner and in fact was the sole source of genuine CANDIE'S trademarked shoes.(12)

2. Applicability of 19 C.F.R. § 133.21(c)(3)

As discussed above, I find that § 1526 does not provide a basis for granting plaintiff injunctive relief. Even if that statute were applicable, I would find that plaintiff's request for injunctive relief is barred by 19 C.F.R. § 133-21(c)(3), supra at 34-35. With regard to the Style No. 4666 shoes, the evidence amply demonstrates that plaintiff authorized Solemio's application of the CANDIE'S mark as well as the completion of the goods, even though it eventually cancelled those goods. See, e.g., Tr. 152, 173-74. As to the other types of shoes in issue, plaintiff has not met its burden of proving that the

manufacturers' application of the CANDIE'S mark was unauthorized.

For the reasons set forth above, plaintiff has not succeeded on the merits of its claims.

G. Balance of Equities

As has been discussed at length, plaintiff has not succeeded on the merits of any of its claims against defendant. Even had plaintiff proven any of its claims, I would find that the balance of equities does not favor the issuance of a permanent injunction. See supra at 18-19.

Plaintiff has not demonstrated that the harm which defendant is alleged to have caused would be repeated in the future. In order for injunctive relief to be appropriate, "[t]he necessary determination is that there exists some cognizable danger of recurrent violation,

something more than the mere possibility which serves to keep the case alive." United States v. W.T. Grant Co., 345 U.S. 629, 633 (1953). Plaintiff has not made this showing, and it is likely that plaintiff itself could prevent any future unauthorized disposition of its trademarked goods by exercising sufficient control over its foreign manufacturers when it cancels marked goods. Furthermore, as plaintiff alleges that the Brazilian manufacturers improperly disposed of the shoes in issue, it is quite possible that plaintiff has an adequate legal remedy against these manufacturers for any contract damage it may prove. It is "the absence of an adequate remedy at law, which is the sine qua non for the grant of [injunctive] relief." Buffalo Forge Co. v. Ampco-Pittsburgh Corp., 638 F.2d 568, 569 (2d Cir. 1971).

In addition, on the same day that plaintiff's president telephoned defendant's president to complain about defendant's sale of allegedly counterfeit shoes, plaintiff's own salesperson had offered to sell the same shoes to defendant's representative. Tr. 278, 327-28, 331-32, 363-68; Defendant's Exh. BB; see supra at 11,18. Given that factor alone, the plaintiff could hardly claim significant equities tipping the balance in its favor.

III. CONCLUSION

For the reasons set forth above, I find that plaintiff is not entitled to a permanent injunction.

Dated: Brooklyn, New York
December 20th, 1984.

SO ORDERED,

/S/ I. LEO GLASSER
United States District Judge

FOOTNOTES

(1) Plaintiff added the eighth cause of action, alleging violation of 19 U.S.C. § 1526, by amendment filed with this Court on January 16, 1984.

(2) "Tr." refers to the transcript of the hearing held on January 10, 1984 and January 19, 1984.

(3) Plaintiff's Proposed Finding of Fact No. 23.

(4) Plaintiff's Proposed Finding of Fact No. 33.

(5) Virtually simultaneously with the filing of this action, plaintiff's in-house counsel informed Footwear News, a trade publication, of its claims that Shoe World was selling counterfeit CANDIE'S shoes. An article entitled, "El Greco asks $21 mil. in Shoe World lawsuit" appeared in the December 19, 1983 issue of that publication. Defendant's Exh. O. Quoting the complaint and statements by Mark Aarons, plaintiff's counsel, and Neil Cole, plaintiff's executive vice president, the article repeatedly stated plaintiff's allegations and belief that defendant was selling counterfeit CANDIE'S shoes. The article also indicated plaintiff's belief that "the shoes were imported directly from Brazil," and plaintiff's request that Shoe World "place advertisements to the effect that the conterfeit shoes 'were not in any way connected with plaintiff.'"

(6) As indicated supra, plaintiff has not proven its allegation that the Brazilian manufacturers manufactured more

CANDIE'S shoes than El Greco had originally ordered. The only credible inference that can be drawn from the record is that Shoe World purchased the same goods which plaintiff had originally ordered and later cancelled.

(7) In this respect the Diamond Supply case also resembles the instant case. Here, some of the allegedly unauthorized CANDIE'S shoes sold by Shoe World had plain sock liners, marked with a number that indicated the factory of origin, as compared to the typical CANDIE'S marked sock liner present in most CANDIE'S shoes. Notwithstanding this "minor stylistic difference," plaintiff has not established any inferiority of quality in the goods sold by Shoe World.

(8) The portion of the complaint's demand for relief pertinent to plaintiff's unfair competition claim requests that defendant be restrained from:

> (d) passing off or inducing or enabling others to sell or pass off goods, not of plaintiff's manufacture, as and for the products of plaintiff; and
> (e) otherwise infringing upon plaintiff's trademark rights in its trade name and trademark CANDIE'S, competing unfairly with plaintiff, injuring its business reputation or diluting the distinctive quality of its trademark.

(9) The Bell & Howell court found that while plaintiff's use of the MAMIYA mark within the United States signified certain warranties and assurances of quality, "[d]efendant's use of those marks

carries none of these assurances." 548 F. Supp. at 1079.

(10) The Osawa court set forth several comparisons between plaintiff's and defendants' marketing practices with respect to the goods in issue. Plaintiff, for example, always maintained a full stock of peripheral equipment to be used with the MAMIYA cameras, whereas defendants could not establish that they did so. Plaintiff gave training seminars for MAMIYA users, dealers and potential customers and sometimes gave rebates on merchandise. Plaintiff authorized camera dealers to sell its trademarked goods only if they would agree to have an extensive supplier/dealer relationship and provide appropriate protection when handling the goods, as well as free warranty repairs and user training. In addition, plaintiff's advertising emphasized the quality of MAMIYA-marked goods.

The advertising of defendants, in contrast, emphasized the cheap price of the marked goods, which was often less than the price at which plaintiff sold to retailers. Defendants used a lesser degree of care in inspecting and handling the goods and provided no warranty service. Plaintiff was therefore forced to provide warranty service for goods sold by defendants in order to protect the reputation of the MAMIYA mark. 589 F. Supp. at 1165-67.

(11) Such delays were attributable to providing service for defendants' unwarrantied goods. See supra note 10.

(12) Defendant Shoe World has also suggested that § 1526 may not be

applicable here because the CANDIE'S goods were not seized by Customs. See Windsor Industries, Inc. v. U.S. Diamond Imports, 549 F. Supp. 415, 417 n.2 (S.D.N.Y. 1982) (§ 1526 deemed inapplicable until after seizure of infringing goods). As the Windsor case concerned a motion to dismiss due to improper venue, the court did not discuss how it arrived at that conclusion, nor is that result required anywhere in § 1526. Because I have found § 1526 inapplicable to this case even absent a seizure by Customs, I need not address defendant's contention.

Copies of the foregoing Findings of Fact and Conclusions of Law have been mailed this date to the following:

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No. 86-1735

Supreme Court, U.S.
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JOSEPH F. SPANIOL, JR.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

SHOE WORLD, INC. d/b/a GUSSINI,

Petitioner,

– against –

EL GRECO LEATHER PRODUCTS COMPANY, INC. d/b/a CANDIE'S INTERNATIONAL,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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July 18, 1987

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Questions Presented For Review

1. Whether goods manufactured under agreement with the trademark owner, which goods are subsequently rejected for good cause and then distributed by the manufacturer without the authorization of the trademark owner, may be considered "genuine" for purposes of avoiding trademark infringement?

2. When a trademark owner sets forth contractual safeguards with its manufacturer to protect its trademark, can a third party benefit from the manufacturer's violation of such safeguards by the unauthorized distribution and sale of goods which are not "genuine"?

3. Did the Court of Appeals for the Second Circuit err in reversing, as a matter of law, the district court's finding that the goods in issue were

"genuine" when the agreement between the trademark owner and the manufacturer governing the manufacture of the goods required certain conditions be met before the goods would be authorized by the trademark owner?

Statement Under Rule 21.1

The caption of the case in this Court contains the name of all parties.

Statement Under Rule 28.1

There are no parent companies, subsididaries and affiliates of El Greco Leather Products Company, Inc. d/b/a Candie's International.

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No. 86-1735

IN THE

Supreme Court of The United States

October Term, 1986

SHOE WORLD, INC. d/b/a GUSSINI,

Petitioner,

v.

EL GRECO LEATHER PRODUCTS CO., INC., d/b/a CANDIE'S INTERNATIONAL

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

INTRODUCTION

The Petition for Writ of Certiorari in this case is without merit because the decision of the Court of Appeals is well-founded in law, is not inconsistent with any decision of another circuit, and reaches the only possible

legal conclusion under the factual circumstances which exist.

The Petition involves a trademark infringement suit in which shoes bearing the CANDIE'S trademark sold by petitioner, Shoe World, Inc. ("Shoe World"), were found to infringe the respondent trademark owner's, El Greco Leather Products Company, Inc.'s ("El Greco"), registered trademark. The shoes sold by Shoe World were purchased from a foreign manufacturer of El Greco and were sold to Shoe World without El Greco's authorization. The Second Circuit found the shoes in question not to be "genuine" and, as such, an infringement of the CANDIE'S trademark.

The entire argument of Shoe World is premised on the contention that the shoes in question were "genuine" since El Greco contracted with the

factory, authorized the affixation of the trademark CANDIE'S to the shoes, and had the opportunity to exercise its right of inspection (through its agent) during the manufacturing process.

Shoe World's definition of "genuine" goods can be summarized by the following formula: Authorization of affixation of the trademark by the trademark holder + inspection = genuine goods. Shoe World's definition, however, is overly simplistic in that it fails to take into account what happens where, as here, the order for the goods is properly cancelled in accordance with the terms of the contract and the goods are then sold by the manufacturer and distributed in commerce without the trademark holder's authorization.[1/]

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[1] Shoe World seems to place this case on equal footing with "grey goods"

El Greco properly cancelled the order for the shoes in question. The record is undisputed that a certificate of inspection was never issued by El Greco as required by the clear and unequivocal terms of the letter of credit. Thus, El Greco never authorized

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Footnote 1 continued

cases. This case does not involve grey market goods. Grey market goods are goods produced by a foreign manufacturer bearing the manufacturer's trademark which are legally purchased abroad from authorized distributors, and are then imported by persons other than the trademark holder and without the markholder's permission are sold in competition with goods of the United States trademark owner of the same mark. Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985). In the instant case the shoes were not manufactured by a licensee of El Greco, but by a subcontractor. The shoes were to be manufactured solely for the purpose of resale in the United States by El Greco. The shoes were never authorized by El Greco because El Greco cancelled the order for the goods. Grey market goods cases are clearly inapposite with cases which involve th cancellation of trademarked goods such as in the instant case.

the distribution and sale of the shoes. Under the circumstances, the shoes could not be "genuine" because they did not have El Greco's final "stamp of approval". Without such approval the reputation and goodwill of El Greco did not stand behind the merchandise. Shoe World's sale of shoes bearing the famous CANDIE'S trademark, but which are not "genuine", is an infringement of El Greco's trademark rights in violation of §32 of the Lanham Act. 15 U.S.C. §1114.

STATEMENT OF FACTS

The facts involved in this case are accurately set forth at pages PA 5 to PA 9 of the Court of Appeals' decision appended to the Petition.

We merely emphasize that the express terms of the agreement between El Greco and the Brazilian factory, Calzados

Solemio Ltda. ("Solemio"), for the manufacture of the shoes in question are clear, unambiguous and undisputed. One term of the agreement requires that a certificate of inspection be signed before the goods are to be delivered and payment made. Signing of the certificate of inspection is a material term of the agreement between El Greco and Solemio and, as such, is a condition precedent to CANDIE'S shoes becoming "genuine". The signing of the certificate certifies that the merchandise has been "approved for shipment in accordance with buyer's delivery and quality specifications." PA 6 (emphasis added).

REASONS FOR DENYING THE WRIT

The Court of Appeals properly decided as a matter of law that the shoes in question are not "genuine".

In the instant case, the issue of whether the shoes are "genuine" is a question of fundamental black letter contract law. It is well-settled that interpretation of a contract is a question of law to be decided by an examination of the four corners of the contract. Hamilton v. Liverpool London and Globe Insurance Co., 136 U.S. 242 (1890).[2/]

The Court of Appeals in finding the shoes not to be "genuine" recognized that the terms of the letter of credit prepared by El Greco required "the inspection certificate as condition for Solemic to draw upon the letter

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[2] Where evidence extrinsic to the undisputed terms of a contract is not presented, the interpretation of the contract is a pure question of law. 5 S. Williston, A Treatise on the Law of Contracts §616 (W. Jaeger 3d ed. 1961); J. Calamari & J. Perillo, Contracts §3-12, at 124 (2d ed. 1977).

of credit." PA 14. As the district court recognized:

> No shoes are approved or accepted unless and until a principal of Sapatus [El Greco's agent in Brazil] signs an Inspection Certificate certifying that the lot of shoes to which it relates fully complies with plaintiff's [El Greco's] standards and specifications.

PA 79-80.

No such certificates of inspection were ever signed or issued with respect to shoe lots F and G. Shoe World ignores this fact. Instead Shoe World argues that the court should determine the question of genuineness not upon a review of the express terms of the letter of credit, but rather upon a factual analysis of the totality of the circumstances surrounding the entire transaction between El Greco and Solemio. In support of its position Shoe World cites to Judge Altimari's statement

in the dissent:

> Determinations of genuineness ... frequently necessitate an assessment of ... the owner's intent when farming out its manufacturing and labelling duties.

PA 25.

Shoe World's position, however, overlooks the fact that the intent of the parties was evidenced by a writing and can be discerned within the four corners of the letter of credit. As found by the Court of Appeals "the certificates of inspection required in this case were an integral part of appellant's [El Greco's] effort at quality control." PA 14-15 (emphasis added). A review of the totality of the circumstances would therefore only be appropriate where there is no written agreement memorializing the intent of the parties or where the terms of the agreement are unclear.

Shoe World's argues that the Court of Appeals' decision was premised on an erroneous legal conclusion that the sine qua non for determining genuineness was the issuance by the trademark owner of an inspection certificate. This argument misstates and mischaracterizes the court's holding. The Court of Appeals' decision merely recognizes that certain events were required to occur before El Greco would accept the shoes in question. One such event is the signing of the certificate of inspection.

El Greco's refusal to sign the certificate of inspection resulted from the factory's inability to deliver the shoes on time.[3/] By reason of the

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[3] It is interesting to note that Shoe World argues that it is an "unwitting player" and, as such, should not be penalized because of El Greco's

express terms of the letter of credit, El Greco's refusal to issue the certificate of inspection deprived the factory of any right it had to use the CANDIE'S trademark. The record is uncontroverted that the letter of credit expressly restricts the sale of shoes bearing the CANDIE'S mark to companies other than El Greco in the United States. PA 14 and 84. Thus, the unauthorized CANDIE'S shoes sold by Solemio to an agent of Shoe World and eventually sold in the United States by Shoe World were never

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Footnote 3 continued

failure to protect itself contractually. Petition 17. However, El Greco did, in fact, employ specific and unambiguous contractual safeguards, including, inter alia, a requirement in the letter of credit for a certificate of inspection. It was this very safeguard which the Court of Appeals recognized to be controlling the determination whether the goods were "genuine" or not.

"genuine".

To meet the narrow parameters of Supreme Court Rule 17 and establish that this case is appropriate for a grant of certiorari, Shoe World urges, albeit erroneously, that a conflict exists between the decision below of the Second Circuit and the Ninth Circuit's holding in Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983). However, these cases, when analyzed on their facts and holdings are easily distinguished.

In Monte Carlo the issue on appeal was whether an action would lie under California state law for trademark infringement against the foreign manufacturer and its U.S. subsidiary for the "unauthorized sale of genuine Monte Carlo shirts" and

not whether the shirts were in fact "genuine". Id. at 1057 (emphasis added). The Ninth Circuit's opinion started from the premise that the goods were "genuine". The Ninth Circuit's decision is devoid of any discussion of the basis for finding the goods to be "genuine". The only pertinent finding appears in the statement of facts that "Monte Carlo rejected the shirts after they arrived in this country because the documents necessary to clear the shipment arrived too late for Christmas sales." Id. at 1055 (emphasis added).

Shoe World strenuously urges that the aforequoted language in Monte Carlo stands for the legal principle that merchandise which is cancelled for late delivery is in every case "genuine" and the sale of "genuine" goods cannot give rise to a finding of likelihood

of confusion. Such an analysis misses the point. The Monte Carlo decision gives no guidance as to the methodology used to determine when goods are "genuine".

Under the circumstances any reading of the Monte Carlo case that suggests that the issue of genuineness was determined therein is unjustifiably broad and misplaced. Nowhere in Monte Carlo did the court review unequivocal and undisputed terms of an agreement of the type between El Greco and Solemio.[4/] For this reason, any suggestion that a conflict exists is

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[4] Even assuming arguendo that genuine goods cannot cause the consuming public to be likely to be confused, a point which El Greco does not concede, the shoes in question could not be "genuine" because all of the terms of the parties agreement had not been met, i.e., issuance of the certificate of inspection. See Weil Ceramics &

based on a wishful analysis of Monte Carlo that does not stand up to judicial scrutiny when considered in light of the facts herein.

Nor is there any basis for Shoe World's contention that the Court of Appeal's decision in the instant case has a far-reaching remedial effect on licensees and manufacturers as a whole. Rather, the Court of Appeals merely decided, as a matter of law, that the CANDIE'S shoes in question are not "genuine" because the intent of the parties as demonstrated by the undisputed terms of the agreement required Sapatus, as El Greco's agent, to sign the certificate of inspection. Whether El Greco cancelled the order

Footnote 4 continued

Glass, Inc. v. Dash, 618 F.Supp. 700 (D.N.J. 1985) [holding that genuine goods may cause confusion].

and refused to sign the inspection certificate because of quality problems, production delays or any other reason makes no difference.[5/] PA 7.

El Greco as the trademark holder required, and Solemio as the manufacturer agreed, that the shoes would only be approved by El Greco when the certificate of inspection was signed. Without a signed certificate, the merchandise never acquired the trademark holder's final authorization and approval. Having not met the express conditions of the letter of credit, the Second Circuit properly concluded "as a matter

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[5] The issue whether El Greco properly cancelled the order is a question of breach of contract properly litigated between Solemio and El Greco and not Shoe World. It is interesting to note that the factory did not sue El Greco for breach of contract, nor did it complain to El Greco that it believed the cancellation was unlawful.

of law" that the shoes in question could not be "genuine".

The requirement of issuing a certificate of inspection was incorporated into the letter of credit as a contractual safeguard to give the trademark holder ultimate and final control over merchandise bearing its trademark so as to avoid the situation were unauthorized trademarked merchandise improperly makes its way into the stream of commerce. As correctly pointed out by the Court of Appeals, "The mere act of ordering a product to be labeled with a trademark does not deprive its holder of the right to control the product and the trademark." PA 16.

The result in this matter is not different from the more usual situation involving either the termination of or a violation of a trademark license

agreement. El Greco's cancellation of the order stripped the factory of whatever limited authority it had to use the CANDIES'S trademark. See, e.g., Burger King Corp. v. Mason, 710 F.2d 1480, 1493 (11th Cir. 1983), cert. denied, 465 U.S. 1102 (1984) ("continued trademark use by one whose trademark license has been cancelled satisfies the likelihood of confusion test and constitutes trademark infringement"); Professional Golfers Ass'n v. Bankers Life & Casualty Co., 514 F.2d 665, 670 (5th Cir. 1975) ("once the contract ends, a licensee's right to the mark ends, and any subsequent use constitutes infringement").

Not only do the trademark laws protect the trademark owner from having its contractors and licensees use its mark in an unauthorized manner, but

it also seeks as a matter of public policy to protect the public from confusion. Consumers purchase goods with a known trademark affixed thereto in the belief that they can rely upon the manufacturer's marketing symbol as a means by which to judge that the goods are "genuine" and consistent with the manufacturer's reputation. It is the notion that the public has the right to be protected when it purchases a product bearing a famous trademark which transcends all else. General Baking Co. v. Gorman, 3 F.2d 891, 893 (1st Cir. 1925), cert. denied, 268 U.S. 705 (1925); Stahly, Inc. v. M.H. Jacobs Co., 183 F.2d 914, 917 (7th Cir. 1950), cert. denied, 340 U.S. 896 (1950).

Faced with no dispute as to the public policy underpinning the use

of trademarks, the narrow issue decided by the Court of Appeals was the issue of genuineness. In doing so, the majority relied on simple but well rooted principles of contract law. It looked to the four corners of the letter of credit between El Greco and its manufacturer and found that a material condition had not been met, i.e., the issuance of the inspection certificate. It therefore determined as a matter of law that the goods could not be "genuine".

To hold otherwise is to encourage a rule that will require courts to interpret every such agreement, as a matter of fact and to provide no judicial certainty, even when the parties have clearly manifested their intent in writing.

If Shoe World's premise that the

issue of genuineness is to be determined as a question of fact were followed, courts will be required to intervene in trademark disputes that otherwise can be resolved by a mere inspection of the four corners of the agreement between the trademark holder and the manufacturer. A trademark owner must know that he can negotiate contractual safeguards with his manufacturer to prevent the unauthorized use of his valuable marketing symbol without the fear that a court upon reviewing the agreement will find the safeguards to be meaningless.

Having found the CANDIE'S shoes not to be "genuine", the Court of Appeals went on to hold that Shoe World's sale of the unauthorized shoes infringed El Greco's trademark rights in violation of §32(1) of the Lanham Act, 15 U.S.C.

§1114(1). The fact that Shoe World was not involved either in the manufacture or the affixation of the CANDIE'S trademark to the shoes and may be an "innocent infringer" is of no consequence.[6/] Shoe World's sale of the shoes is sufficient "use" of the mark for it to be liable for the results of such infringement and the fact that it may have lacked knowledge of its supplier's infringement provides no defense. See De Acosta v. Brown, 146 F.2d 408, 410-12 (2d Cir. 1944),

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[6] The trademark laws only recognize the doctrine of "innocent infringement" in connection with §32(2) of the Lanham Act, 15 U.S.C. §1114(2), as it pertains to printers and publishers. Otherwise, the intent of the defendant is a factor to be considered by the court in establishing likelihood of confusion and damages. Fleischman Distilling Corp. v. Maier Brewing Co., 314 F.2d 149 (9th Cir. 1963), cert. denied, 374 U.S. 830 (1963); W.E. Basset Co. v. Revlon, Inc., 435 F.2d 656, 664 (2d Cir. 1970).

cert. denied, 325 U.S. 862 (1945); Bowmar Instrument Corp. v. Continental Microsystems, Inc., 497 F.Supp. 947, 957 (S.D.N.Y. 1980); 2 J. McCarthy, Trademarks and Unfair Competition §25.5, at 179 (2d ed. 1984).

CONCLUSION

The conflict between the circuits argued by Shoe World is illusory and can be reconciled on its facts. The Court of Appeals' decision is well-founded in fact and law. In finding the goods not to be "genuine", the majority recognized that the terms of the agreement between El Greco and Solemio were specific, certain and contained within the four corners of the letter of credit. One such term required a certificate of inspection to be issued certifying that the merchandise had been approved for

shipment in accordance with El Greco's delivery and quality specifications. In the absence of such a certificate the goods could not be "genuine" as a matter of law.

Shoe World would have the district court rewrite the agreement between El Greco and Solemio by allowing the court to redline provisions thereof that are objected to by Shoe World, a non-party to the agreement. Such a premise, if adopted by the Court, would require judicial intervention to interpret the terms agreed to by the parties and would result in judicial uncertainty in every case involving cancelled goods.

Under the Shoe World theory, once a trademark owner has given his permission to a manufacturer to affix the trademark to the product and has

exercised his right to inspect the merchandise for purposes of quality control, the courts inquiry is permitted to disregard the intent of the parties as expressed in their written agreement and may find as question of fact that the goods are "geniune". Such a rule would destroy traditional concepts of contract law, would tie the hands of the trademark owner from taking precautions necessary to maintain the goodwill and reputation of his trademark and would open the courts to a floodgate of so-called "genuine" goods cases that would normally be determined by existing contract principles.

It is a fundamental tenet of United States trademark law that a trademark owner has a duty to control the nature and quality of the products on which his trademark is used. Such a duty

is imposed because trademarks are the symbols on which the public has come to rely to assure the reliability, performance and quality of the particular product. Professional Golfers Association of America v. Bankers Life & Casualty Co., 514 F.2d 665, 670-71 (5th Cir. 1975). Here, as part of El Greco's quality assurance procedures, the letter of credit conditioned payment upon the issuance of the inspection certificate by Sapatus. By refusing to issue the inspection certificate El Greco affirmatively demonstrated that the shoes were not approved or accepted and therefore could never be "genuine".

In view of the foregoing, this Court should deny this Petition as Shoe World has failed to show any "special and important reasons" pursuant

to Supreme Court Rule 17 justifying an investment by this Court of its time and expertise.

Dated: July 18, 1987

Respectfully submitted,

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No. 86-1735

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IN THE

Supreme Court of the United States

October Term, 1986

SHOE WORLD, INC. d/b/a GUSSINI,

Petitioner,

against

EL GRECO LEATHER PRODUCTS COMPANY, INC. d/b/a CANDIE'S INTERNATIONAL,

Respondent.

PETITIONER'S REPLY BRIEF TO RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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Respondent argues, for the first time, that the issue of genuineness of branded goods is properly decided as a matter of "fundamental black letter" contract law. Respondent's Brief p. 7. It contends that courts should not examine, as the district

court did below, the totality of circumstances in determining whether or not goods manufactured pursuant to authorization of the trademark owner are genuine. Instead, courts should refer simply to the four corners of a document pursuant to which the manufacturer of the goods at issue was to be paid -- in the present case, the Letter of Credit.[1] According to Respondent's theory, a party to such a document can redefine trademark infringement, without regard to the consuming public, by determining for itself,

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[1] Respondent states that the Court of Appeals majority "relied on simple but well rooted principles of contract law", Respondent's Brief p. 20, thus misapprehending the opinion of the Court, which did not in the least rely on contract law. The Court of Appeals majority clearly reversed the trial court based on the mistaken notion that the trademark owner's effort to control quality was denied because a so-called "Certificate of Inspection" was never issued. The Court thus ignored specific, undisturbed findings of fact that quality control was not denied. See infra pp. 4-5.

what is or is not genuine. Even assuming that the Letter of Credit contained such a definition (and it clearly does not), Respondent's argument must fail.

The Contract Here Contains No Definition of "Genuineness", Thus Requiring An Analysis of the Totality of Circumstances

The contract in question, a Letter of Credit, is devoid of any definition of genuineness and does not even remotely address the issue. Nowhere in the document is there a statement of what will or will not constitute genuine goods. That document simply provides that certain conditions must be met before the manufacturer can draw upon the Letter of Credit. Among these conditions is issuance of an "Inspection Certificate". This Certificate is merely a written confirmation of the fact of inspection; it could just

have easily been called a "Confirmation Certificate".

Clearly, non-issuance of such a Certificate with respect to the two lots at issue cannot, *ipso facto*, establish that the goods were not inspected for quality prior to completion. Nevertheless, Respondent argues that absence of the Certificate means, as a matter of law, that there had been a denial of the right to control quality. The appellate court agreed (A 14-15), notwithstanding undisturbed factual findings by the trial court that the goods (i) were routinely inspected[2] (A 84-86, 116, 119); (ii) were completed and labelled with Respondent's permission prior to cancellation of the

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[2] Along with routine inspection it was "normal procedure" for Respondent's agent to inform a factory in writing why goods were not accepted. No documentation for the goods at issue here which would indicate quality defects was offered in evidence. (A 87).

order (A 88, 116, 119); (iii) were of a quality consistent with earlier certified shipments (A 80, 86-88, 116); and (iv) were found to have been rejected for *late delivery* and *not* poor quality.[3] (A 86-87, 95-96, 124).

In truth, Respondent seeks merely to interfere with the distribution of lawfully manufactured goods. It elects to forgo an alleged contract right against the manufacturer of the goods[4] (whereby

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[3] The district court found incredible Respondent's claim that it had cancelled the two lots for quality reasons. In fact, Respondent caused certain merchandise to be manufactured in Brazil, merchandise that was *only* marketable in the United States and, on the basis of an alleged late delivery, cancelled the order (A 86-87). The reason that Respondent even argued poor quality was that it recognized without a finding of nongenuineness, the goods could not infringe.

[4] The district court noted:

> [I]t is likely that plaintiff itself could prevent any future unauthorized disposition of its trademarked goods

(footnote continued)

Respondent could limit distribution) and instead seeks to enforce this alleged right against Petitioner in the guise of a trademark infringement action.

Respondent argues that the goods were not lawfully manufactured based on a provision in the Letter of Credit that a Certificate of Inspection must issue before the manufacturer could draw on the Letter. Unfortunately for Respondent, the Certificate of Inspection is entirely unrelated to the lawfulness of the making of the goods. For one, the Certificate was to issue only after manufacture was complete. Indeed, the uncontested

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by exercising sufficient control over its foreign manufacturers when it cancels marked goods. Furthermore, as plaintiff alleges that the Brazilian manufacturers improperly disposed of the shoes in issue, it is quite possible that plaintiff has an adequate legal remedy against these manufacturers for any contract damage it may prove.

(A 159).

findings of the trial court are that the goods were "authorized", "planned and sponsored" by Respondent. (A 93, 124).

Respondent's contention that as a matter of law the Letter of Credit is dispositive on the issue of genuineness is patently absurd since the Letter is silent on that point. What Respondent is really saying is that because it did not issue a Certificate of Inspection, then, as a matter of law, it must not have controlled quality. As noted, this simply ignores the unrefuted findings of the trial court.

The Court of Appeals for the Second Circuit also failed to appreciate the distinction between the act of quality control and a ministerial verification of that act, namely, issuance of the Certificate of Inspection. In doing so, the Court below permits Respondent to redefine trademark infringement and the

Trademark Act's underlying rationale, i.e., protection of consumers from falsely marked goods or goods of inferior quality.

Moreover, even if we assume that a signed Certificate was required for the merchandise to acquire the trademark holder's final approval, this is not necessary to a finding of genuineness. As stated by Judge Altimari below in his dissent:

> As long as the goods are manufactured under the direction of the trademark owner, bear the trademark registered and issued by the trademark owner, and are not of an inferior quality, the products are considered genuine. It is not necessary to a finding of genuineness that the goods be distributed with the trademark holder's express authorization. *See Olympus Corp. v. United States, 792 F.2d 315, 321 (2d Cir. 1986)* (goods manufactured and marked abroad by parent of trademark holder and imported without permission adjudged genuine since they did not bear "counterfeit or spurious trademarks"); *Monte Carlo, 707 F.2d 1054* (goods manufactured according to trademark owners' specifications and bearing its label but distributed to

> discount retailers without permission of trademark owner deemed "genuine"); *DEP Corp. v. Interstate Cigar Co.*, *622 F.2d 621, 621 & 622 n.1 (2d Cir. 1980)* (goods considered genuine as there was "no difference between the product sold by [trademark owner] and that sold by [alleged infringer]," although source of goods not trademark owner but "European middlemen"); *cf. Adolph Coors Co. v. A. Genderson & Sons, Inc.*, *486 F. Supp. 131 (D.Colo. 1980)* (unauthorized sale of beer manufactured and trademarked by trademark owner constituted an infringement since sold in a damaged and inferior condition).

(A 28-29).

Respondent's claim that it should succeed because a provision in the Letter of Credit is dispositive, as a matter of law, on the issue of "genuineness" not only completely ignores the explicit language of that contract, but also effectively rewrites its terms.

Parties Should Not Be Free to Redefine Trademark Infringement By Determining For Themselves What Is Or Is Not Genuine

Even if the Letter of Credit did contain a definition of "genuineness" that was consistent with Respondent's position herein, a party cannot, by insertion of self-serving contract language, redefine substantive trademark law and determine for its own purposes what type of activity will or will not constitute trademark infringement.

For example, let us assume that Respondent placed in its Letter of Credit language stating:

> With respect to any lot for which a Certificate of Inspection is not obtained, such lot shall be deemed to be nongenuine goods under United States trademark laws.

It is Respondent's position that this language would, as a matter of black letter law, determine the issue even

against innocent third parties not privy to the contract, notwithstanding the fact that the goods had come into existence at Respondent's request and in compliance with quality controls imposed by Respondent! With the stroke of a pen, Respondent argues, it should be able, in essence, to bypass the general body of trademark jurisprudence and to disregard the basic rationale for protection of trademarks, namely, the protection of consumers from falsely marked goods or goods of inferior quality. That is impermissible.

By way of illustration, one may refer to the so-called "field of use" agreements entered into by "friendly" competitors. These agreements generally involve the use of identical or very similar marks on related goods. For business reasons, competitors will agree to divide the field,

notwithstanding the fact that public confusion may result. Such agreements have been the target of judicial criticism.

For example, in *California Fruit Growers Exchange v. Sunkist Baking, 166 F.2d 971 (7th Cir. 1947)*, the Court of Appeals for the Seventh Circuit reviewed a decision enjoining the use of "Sunkist" on bread. Plaintiffs in that case were California Fruit Growers Exchange ("Exchange"), which used "Sunkist" on fresh fruits and soft drinks, and California Packing Corporation ("Packing"), which used "Sun-Kist" for canned and dried fruits and vegetables, milk and butter. Plaintiffs' concurrent use of the mark on these similar goods was the subject of an agreement whereby Exchange and Packing each granted the other the right to employ the mark on their respective goods.

These plaintiffs obtained an injunction against defendant's use of "Sunkist" on bread on the basis that defendant's use would be likely to cause public confusion. The Court of Appeals, noting that the product lines of the two plaintiffs were more similar to each other than they were to the defendant's goods, reversed the lower court's injunction, ordered a dismissal of the Complaint and made the following, stinging observation:

> We are supposed to believe that when a customer bought fruits or vegetables under the name "Sunkist", he was not confused as to whether the fruit came from the California Fruit Growers Exchange or the vegetables from the California Packing Corporation; but if he bought a loaf of bread under the name "Sunkist", he was likely to think that he bought it from one or the other of the plaintiffs because they sold fruits and vegetables, but never bread. With the plaintiffs practicing such hocus-pocus with the trade-name "Sunkist", we shall ask to be excused when we are admonished by these dividers of confusion

> by contract to hear their vice president and advertising manager shout confusion on behalf of the purchasing public.

See also Campbell Soup Co. v. Armour & Co., 81 F. Supp 114, 120, aff'd., 175 F.2d 795 (3d Cir.), cert. denied, 338 U.S. 847 (1949).[5]

While it is clear that the Letter of Credit contains no definition of genuineness, it is just as clear that even if it did contain such language, that would not, under law, permit a redefining of what conduct will or will not result in a finding of trademark infringement. Of necessity, such a finding must be based upon an application of relevant statutes and case precedent.

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[5] See also those cases, which, by way of further analogy, instruct that parties cannot, under the guise of a trademark license contract, avoid compliance with the antitrust laws. *Siegel v. Chicken Delight, Inc., 448 F.2d 43, (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972).*

Conclusion

Respondent seeks to enforce against Petitioner in the guise of a trademark infringement suit a contract right it allegedly has against its foreign manufacturer. Its purported basis is that the issue of genuineness of branded goods is properly decided as a matter of contract law, and that because an Inspection Certificate (required for the manufacturer to draw on the Letter of Credit) was not issued, the goods were not genuine.

There is no provision in the Letter of Credit defining whether goods distributed without an Inspection Certificate are or are not genuine. Indeed, the letter is devoid of any definition of genuineness. While no one debates that a Certificate of Inspection never issued, it is clear that quality control was not denied and

inspection took place prior to rejection of the shipment.

Where, as here, the goods came into being with permission, the mark was affixed with authority prior to cancellation, the goods were of a quality consistent with earlier certified shipments and where Respondent itself tried to sell to Petitioner the very same style of goods that Petitioner purchased from the manufacturer[6], it is respectfully submitted that the goods are genuine and their sale does not and cannot constitute trademark infringement.

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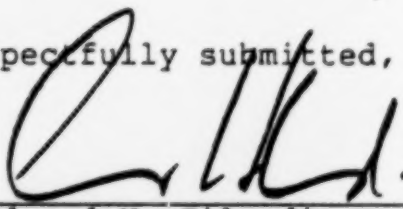
[6] The trial judge found that the claim of nongenuineness lacked credibility for the additional reason that on the same day that Respondent's president complained on the phone to Petitioner's president about this matter, Respondent's salesman was offering the *very same* shoe style to Petitioner's as close-out merchandise with the full knowledge of Respondent's president. (A 91-92).

As a result of the majority opinion below, Respondent has been permitted to redefine trademark infringement and the basic rationale for protection of trademarks, i.e., protection of consumers from falsely marked or inferior quality goods. It is self evident that this is unfair and improper. Accordingly, the Court of Appeals decision should be reversed.

Respectfully submitted,

By 

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